



Original Research Article

The relationship between the spatial distance of auditors and clients, and the quality of auditing in accepted companies in Tehran stock exchange

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Effective factors of auditing from auditors' point of view are factors which affect the discovery of financial statements or incentive of statement reports. One of these factors is the distance between auditor and client. In the present study, in order to investigate the role of the distance between auditors and clients in the quality of accepted audits of companies in Tehran stock exchange during 2006-2009, 50 questionnaires were distributed and after completion, data was extracted using non-parametric methods; three distinct methods of the research were used to check the assumptions. The first method involves comparison of average obtained from variables indicator, the second method of analysis was ANOVA to determine correlations between the distance of variable under study and the third was using the correlation coefficient. The results of the study show that by reducing the spatial distance between the auditor and the client, financial information can be improved. Also, the distance of economic factors and information inconsistency between the auditor and client, blocks the ease of transfer of information and reports submitted by internal auditors' information, and rated higher than reports submitted by the auditors.

Key words: Quality of auditing, data transmission, spatial distance between auditors and clients, accepted companies in Tehran stock exchange

INTRODUCTION

Nowadays, information disclosure has become more important because of the increasing complexity of the business environment. A series of evidence shows that the capital market can quickly absorb new information and reflect them in stock prices. Therefore, many studies conducted within and outside the country; particularly studies of Francis (2009) can be pointed out here. However, some important issues such as mismatch between the auditor's and client's information, managerial opportunism, information rating, quick access to specific information and effective communication between auditor and client are of particular importance.

For the transfer of the economic factors, it is expected that closeness of economic factors and inconsistencies between auditor's data, customer information and reports provided by local (internal) auditors, have higher information rate for external (independent) because the

customer can easily get specific information; such as specific ways to reward customers and opportunities from non-standard reports. It is believed that this information rate undermines managerial opportunity because if the client has more information, he is better able to distinguish auditor's problems.

In addition, as it is anticipated, the difference in the quality of companies (clients) with extra operating range will be more and will cover large geographic areas. Overall, evidence suggests that information benefits with local auditors, help managers provide better revenue reporting, and this benefit is much more extensive for non-extensive companies.

Based on the issues mentioned above, the main research questions are as follows:

1- Does closeness to the client facilitate obtaining specific information by the same client?

2- Does more information weaken managerial opportunism?

3- Does more information about the client give a greater ability for the auditor to identify and locate problems in the auditing?

A review of the research literature

Quality of auditing

A fundamental problem in the definition of auditing quality is the differentiation between auditing quality and auditors' quality. Many studies did not show any difference between the two terms, and they are often used equivalently. Quality of auditors as the total quality of auditing services is defined in all the audits of auditing firms. Auditing quality should be defined separately for each auditing project because auditing firm may not perform all audits at a similar quality level. In other words, the quality of auditors is based on the quality concept of auditing firm, while the auditing quality is based on any real auditing project. Thus, the distinction between these two concepts is necessary in auditing quality researches. Perceptions of auditing quality and the real quality of auditing are different. However, paying attention to the real auditing quality is more important than the perception of auditing quality, but it should not be forgotten that it is not possible to easily measure the real quality auditing. The real quality of audit is invisible and it can only be assessed after auditing. For instance, Palmrose (1988) uses lawsuits against auditors to measure the real quality of auditing. Shower (2000) considers the nonconformity of accepted principles of auditing reports in the financial statements by auditors as the scale of measuring the real auditing quality. And some studies use the amount of fees as auditing quality.

Titman and Trueman (1986) define quality of auditing as the accuracy of the information that is available to investors. Davidson and Ncu, (1993) have defined quality of auditing as the ability of auditor to discover and report material misstatements and the manipulated discovery in the net profit. One of the most common definitions about auditing quality is a definition that is presented by Di Angelo (1981). He has defined auditing quality as follows:

Assessment (understanding) of the market with the probability that the auditor:

1. Discovers material misstatements considering financial statements or accounting system of the client.

2. Reports the discovery of material misstatements. Likelihood that auditors will detect any material misstatement depends on the auditors' competence, and the probability that the auditor will report the discovery of material misstatements, depends on the auditor independence.

The above definition is the real quality of auditing, based on consumers' perceptions or the so-called market perception of auditing quality. Palmrose, (1988) defines

audit quality in terms of accreditation of auditors since the objective of auditing is to ensure financial statements. Thus, auditing quality means that financial statements are free of material misstatement. In fact, this definition focuses on auditing results i.e. trustworthiness of auditing financial statements that reflects the high quality of auditing. This definition question how users rate the reliability of audited financial statements.

Again, the above definition is based on the quality of audits that have been conducted, since the reliability of the audited financial statement cannot be determined before auditing. As a result, the definition of Palmrose, (1988) focuses on the real quality of auditing. Also, Shower (2000) agrees with the definition of Di Angelo (1981) without breaking it into the real quality of auditing and perception of auditing quality.

Other studies measured perceptions of auditing quality due to the difficulty of the real quality of auditing. Di Angelo (1981) argues that larger auditing firms have less incentive to be opportunistic and thus, perceptions of users of these auditing firms are better. Hogan (1997) considers the perception of high auditing quality in relation with fair pricing of the initial offering of shares to the public.

Balsam et al., (2000) in their research conclude that specialization leads auditors in perception of auditing quality. However, the real auditing quality is difficult to measure, but it is possible to measure public perception of auditing quality, and market reaction to auditing information could also be observed. Generally, in an efficient market, perceptions of the quality of auditing should refer to the real auditing quality. Study by Lys (1994) clarifies some aspects of the case. In his research, he investigates if the perception of auditing quality by users represents the real quality of auditing or not. His result shows that users' perception of auditing quality is representative of the real quality of auditing. The research on the relationship between public perception of auditing quality and other factors may be responsible for many of the uncertainties regarding the real quality of auditing. If market conditions cannot properly evaluate the real quality of auditing, perception of the auditing quality cannot represent the real quality of auditing either. Thus, researches new question will be why market perception of auditing quality is not a representative of the actual quality of auditing?

Location of auditors and auditing quality

Location of auditors can affect auditing cost through its impact on auditing services and auditing quality. Evidence suggests that concerns about high costs of non-local auditing encourage clients to switch their non-local auditors to local ones.

In a report submitted to the Securities and Exchange Commission in June 1998 for example, 800 travel systems in Florida stated that their main reason for switching from

non-local auditors in Dallas, Texas to local ones in the city of Tampa was in fact higher costs for travel, transportation, telecommunications, etc. As the above example indicates, close local auditors can help reduce costs Kim et al., (2010).

Local auditors through direct interaction with executives and other employees of the client's company have a greater access to information than non-local auditors. They establish closer relationships and thus create a reliable communication channel with their clients and also have more opportunities than non-local auditors. In addition, they are more successful in obtaining information from media about clients Bell et al., (2006).

As previously mentioned, the advantage of facilitating channels of information and communication use by local auditors when compared to the non-local can lead to higher quality of audits and effective supervision. As the quality is priced at the professional services market; high-quality services can also earn more expenses than other less-quality services. In this case the benefit of the profession as well as auditors and experts is expressed. Consequently, a higher quality of auditing by local auditors should make them earn more benefits in equal circumstances. In this case, the positive relationship between auditing fees and auditor's local situation could be seen. Presenting two contrasting effects of local auditors on auditing fees, the question now is whether local auditors are more expensive than non-local auditors. In fact, Choi et al., (2006) aver that despite other cases, the auditing fees charged by local auditors are not very different from that of non-local auditors.

A company or corporation usually offers its services at its office, which is located near clients. For example, Zang et al., (2006) in their study conclude that nearly 85% of clients were audited by auditors whose offices are located where the headquarters of clients are located, and approximately 91% of clients were audited by auditors whose offices are at a distance of 150 miles from headquarters of clients. Most of the auditing contracts were studied by the auditors and their clients from geographical proximity point of view.

Studies in literature show that the structure of a growing financial investment in domestic stocks has a more trend than foreign stocks, largely because they are more familiar with domestic stock. These studies show that America's capital markets, fund managers and individual investors prefer to invest in local companies mainly because they are simply more attuned to local stocks and learn about their benefits. Furthermore, Mallow (2005), who states that without geographic projections, analysts provide more accurate predictions than other analysts and that the first group has more information preference than the second group and this information advantage leads to a better prediction.

Kedia and Raj Gopal, (2011) provide evidence about geographical proximity between firms and regulators with the importance of false reporting which influences depth of financial reporting. Similarly, Choi et al., (2006) conclude

that, in close proximity, local auditors compared with non-local auditors are naturally familiar with the clients within that location and have contact information advantages. Local auditors through direct interaction with client executives and other employees of the client's company's compared with non-local auditors, have a greater access to information. They have more opportunities than non-local auditors in establishing closer relationships and consequently, in the creation of a reliable communication channel with their client Zang et al., (2006).

Advantage of information and communication reduces information asymmetry between local auditors and their clients. Assessment of the client's risk and other features assists auditors with greater precision and allows them assess the incentives and opportunities of clients in presenting reporting standards. This is why local auditors have more abilities in monitoring and evaluation of client reporting and accounting errors or irregularities compared with non-local ones Zang et al., (2006).

Geographical proximity or location of auditor can ensure auditor's independence and consequently, auditing quality. Despite close ties between the local auditors and their clients, local auditors are likely to collude with their clients

and change their report. This means that auditing quality is low. The prediction about a negative relation between auditing quality and location of the auditor is called "the conspiracy". The example of China's developing market with auditing services is compatible with the "collusion" dimension. For instance, Zang et al., (2006) introduces local auditors who live within the scope of their local government. They found that generally, auditing quality of local auditors is lower than the non-local ones because local auditors are under political pressures of the local governments, which are often in control of the shareholders of local companies.

The role of political influence in the relationship between auditor and client in auditing environment of China is striking. It was also observed in the well-known relationship between Enron and Houston Anderson's offices. Collusion between auditors and their clients cannot be ignored even in America's market, especially when auditors are geographically close to their clients Zang et al., (2006). In summary, these data demonstrates the positive impact of auditors' local situation on auditing quality, while collusion shows a negative impact. In order to provide empirical results to support both dimension or the prevalence of one dimension over the other, Choi et al., (2006) conclude that the level of earning management was measured and there is not a significant difference in terms of the amount of abnormal accruals between clients local and non-local auditors; other things being equal.

Location of auditors and auditing pricing

Like professional service providers such as doctors and lawyers, auditors calculate both delivery (or offer) fee and

Table 1. The number of questionnaires completed by the auditors

Type of auditor	The number of questionnaires completed
Internal	25
External	25
Total	50

the quality of auditing services. Consistent with this view, the current pricing model, was first developed by Symonick (1980) and later outlined and further developed by Choi (2006). This suggests that the cost of the auditing which is equal to auditing costs in a competitive situation are functions of client's characteristics such as company size, client, client complexity, and risk associated with the client and auditor characteristics such as brand and specialized services that affect the quality of audit services.

Research hypotheses

With regard to the above-mentioned cases, the main hypothesis of this study is as follows:

There is a significant relationship between the spatial distance of auditor and the client and auditing quality.

And secondary research hypotheses areas follow:

1-There is a significant relationship between the spatial distance of the auditor and client and obtaining specific information from clients.

2-There is a significant relationship between the spatial distance of the auditor and client and managerial opportunities.

3-There is a significant relationship between the spatial distance of the auditor and client and the ability to detect auditing problems.

Variables

According to these research hypotheses, variables can be expressed as follows:

1. Proximity to the client can facilitate obtaining specific information from the client.

2. Informational rating weakens managerial opportunism.

3. Having more information about the client gives the auditor the ability to identify and define auditing problems.

MATERIALS AND METHODS

The present research is an applied research with the survey method. In order to collect required data and information, library and field research methods were used. In the library method, the theoretical principles of Persian and Latin books and magazines were collected and in the survey method, 50 questionnaires were distributed and after completion, data was extracted.

In the present study, the mean statistics was used for both internal auditors and external auditors to compare the variables. Since the answer to questions is the rating and qualitative form, arrangements was made so as to turn these variables into quantitative and measurable variables. In this regard, three methods were used. In the first method, for each answer a specific answer was assigned with the subject matter of the question; so that higher numbers indicate a higher level of positive responses to the questions. Then the average index for the two groups was compared from significance point of view. In the second method, a block ANOVA analysis was carried out on the impact of internal and external auditors and in the third method, the correlation coefficient was used to assess the correlation between variables. Limitations of this study included the use of as few as 50 questionnaires for auditors of companies in Tehran Stock Exchange to complete. To compensate for the limitations of this study, 50 questionnaires were completed by auditors of companies in Tehran Stock Exchange as shown in Table 1, so that the 25 questionnaires were completed by the auditors with distances over 100km from clients, and 25 questionnaires were completed by the auditors with distances less than 100km from clients.

To take advantage of the first approach, it is necessary to examine differences in variables between the two groups; internal auditors and external auditors, using a proper methodology in order to obtain reliable results.

Two issues are important to consider. First, what are the average indicator variables for each of the two external auditors and internal auditors? Second, in case of a difference in the mean, is this difference is statistically significant or not? It should be noted that in this test, the null hypothesis is the equality of the mean and also one of the classical assumptions of equality of variances between the two groups. The null hypothesis of equality of variances between two groups is the equality of variances for the two groups. If the test statistics obtained are more than the number of critical points, the null hypothesis will be rejected.

In the second method, ANOVA analysis was used. The null hypothesis in this test is a non-linear relationship between variables. For using the third method, the number zero must be considered for external auditors and number one for internal auditors. Then, for each answer, a number is considered, so that number 3 is considered for the answer which is appropriate and positive, number 2 is considered for the answer which is average, and number 1 is considered for the answer which is below average. Then, the correlation coefficients are examined. The strong positive relationship between the variables and variable of auditors' groups which have two numbers of zero and one shows that internal auditors have more advantage than external auditors.

For this study therefore, Lambda correlation coefficient was used to analyze the data. After data collection, questionnaires were coded and codes registered on code

Table 2 . Answers relating to access to certain client-specific information

Obtaining specific information about clients	Easy	Medium	Difficult
Internal auditor	6	11	8
External auditor	7	10	8
Total	13	21	16

Table 3. Mean and standard deviation of the test of access to client-specific information

Group	Mean	SD
Internal Auditor	2.08	0.151
External auditor	1.88	0.156

Table 4. Exam of average variance anisotropy and equality of access to client-specific information

Type of test	Average variance anisotropy		Equality test	
F-type test statistic and probability level	F	Probability level of 5%	T	Probability level of 5%
Numbers	0.123	0.72	0.72	0.36
Results	No average variance anisotropy		Equality of averages	

papers, and then registered numbers were transferred to the computer and statistically analysed using the SPSS software.

Statistical samples and population

Due to population number and inability to collect data from all people, some individuals from the statistical population were considered as representatives and are stratified by the random sampling method. Therefore, in this study, in order to study the role of the geographical distance between the auditor and the client in the quality of accepted companies on Tehran Stock Exchange during 2006 to 2010, 50 questionnaires were distributed and after completion, data were extracted.

Statistical results of testing hypotheses

To obtain specific information about a client

In the relationship between the client and the auditor, obtaining certain information from a client by an auditor is an important point for auditing.

This is a form that can be provided by the auditor's reports on auditing quality and also has a great influence on future decisions. So, if more client-specific information is available, auditor's work is smarter and more accurate with less decision making errors for individual managers and auditors. It is expected that obtaining specific information about the client is easier due to the proximity of internal auditors and consequently, their closer connection with clients than external auditors. As shown in Table 2, eight of

the external auditors believed that obtaining client-specific information is difficult, ten of them believed that the difficulty of the client-specific information is average and 7 believed that obtaining client-specific information is an easy task. However, from internal auditors, eight of them believed that obtaining client-specific information is difficult, eleven of whom believed that there was a moderate level of difficulty in obtaining client-specific information, and six others believed that obtaining client-specific information is an easy task. Totally, sixteen people believed that obtaining client-specific information was difficult; twenty-one people believed that there was a moderate level of difficulty in obtaining client-specific information, and thirteen people believed that obtaining client-specific information is an easy task.

As Table 3 indicates, the average obtained for the first group; the Internal Auditor is 2.08 and for the second group; external auditors are 1.88. Also, according to the Table 4, the Student's T statistic is 0.918 and by considering the 5% possibility level it can be mentioned that at this level, because of smaller size of statistics obtained than critical points, the null hypothesis based on the equality of the mean index of obtaining information cannot be rejected. It can be concluded that obtaining certain information by auditors in two internal auditors groups, internal and external auditors did not differ.

Also, according to the Table 4, to test the difference between the two groups, ANOVA statistics was used. Value obtained for this test is 0.123, which due to 5% possibility indicates that the F statistics is smaller than the critical level that has been mentioned, and the null hypothesis about the homogeneity of variance between the two groups

Table 5 . ANOVA for obtaining specific information

Type of test	Total Squares	Degrees of freedom	F-statistic	Probability level
Inter group	0.5	1		
In group	28.5	48	0.84	0.36
Total	29	49		

Table 6. Lambda correlation coefficient for obtaining specific information

Dependent variable	Value	Probability level
Specific information	0.00	1.00
Type of auditor	0.28	0.12

Table 7. Answers related to managerial opportunism

Managerial opportunism	Low	Medium	High
Internal auditor	10	10	5
External auditor	7	12	6
Total	17	22	11

cannot be rejected.

In conclusion, the study shows that this model has lack of variance anisotropy and obtaining of information by internal auditors did not differ with external group of auditors. Closeness of the auditor to the client is not a factor in obtaining specific information by the auditor.

In studying the relationship for obtaining specific information by the auditor ANOVA analysis was used .The results are reported in Table 5.

As the Table 5 shows, the null hypothesis that mentions no association between information scores provided by the auditor and type of auditing cannot be rejected. In the first method like the present method, closeness of the auditor to the client is not a factor in obtaining specific information by the auditor.

In the third method, to evaluate the association between obtaining certain information by the auditor and the type of internal and external auditors, Lambda correlation coefficient was used. The results of the test are presented in Table 6.

The results in Table 6 show that the two variables do not have any relationship with each other. Hence, the results of two presented methods obtained from the third method are confirmed. The lack of relationship between obtaining specific information with the type of the auditor is supported.

Therefore, in the study of the relationship between obtaining specific information from a client and the spatial distance between a client and an auditor, it was found that the set have no relation with each other. So, we can logically reject the first assumption of the research because there is no particular information for internal auditors than external ones.

Managerial opportunism

In the study of the relationship between obtaining specific information and the spatial distance between the auditor and the client, it was clear that these two have no correlation with each other because there is no particular information for internal auditors than external ones to study the managerial opportunism in relation to specific information.

But managerial opportunism can be compared between the two groups of auditors.

As reported in Table 7, seven of the external auditors believe in low level of managerial opportunism, twelve of whom believe a moderate level of managerial opportunism and six others believe a high managerial opportunism. However, among internal auditors, ten of them believe a low level of managerial opportunism, ten of them believe an average level of managerial opportunism and five others believe that there is a high managerial opportunism.

In all, seventeen people believe that there is a low managerial opportunism, twenty-two people believe a moderate level of managerial opportunism and eleven others believe a high degree of managerial opportunism.

As shown in Table 8, the average obtained for the first group; the internal auditor ,is 1.8 and for the second group; the external auditor, is 1.96. As shown in Table 9, Student's T test's statistics was obtained at 0.75, considering the 5% probability. We can say that at this level of probability considering the smaller size of the statistics than critical points, the null hypothesis about the equality of managerial opportunism index cannot be rejected. It can be concluded that the amount of managerial opportunism do not differ in internal and external auditors.

Table 8. Mean and SD of managerial opportunism test

Group	Mean	SD
Internal Auditor	1.8	0.76
External auditor	1.96	0.73

Table 9. Heteroskedasticity test for equality of variance and equality of the mean managerial opportunism

Type of test	Average variance anisotropy		Equality test	
F-type test statistic and probability level	F	Probability level of 5%	T	Probability level of 5%
Numbers	0.66	0.42	0.75	0.45
Results	No average variance anisotropy		Equality of averages	

Table 10. ANOVA analysis for managerial opportunism

Type of test	Total Squares	Degrees of freedom	F-statistic	Probability level
Intergroup	0.32	1		
Ingroup	26.96	48	0.57	0.45
Total	27.28	49		

Table 11. Lambda correlation coefficient for managerial opportunism

Dependent variable	Value	Probability level
Managerial opportunism	0.00	1.00
Type of auditor	0.12	0.46

Table 12. Answers relating to the ability to detect auditing problems

Ability to detect auditing problems	Low	Average	High
Internal auditor	1	15	9
External auditor	4	12	9
Total	5	27	18

According to Table 9, in order to test the difference between the two groups, F statistics is used. The value obtained for this statistics is 0.66, which due to the probability level of 5% indicates the smaller size of F statistics than critical points. It has been suggested that the null hypothesis about the homogeneity of variance between the two groups cannot be rejected. In conclusion, we can say that this model has variance anisotropy.

In the second method, to examine the relationship between managerial opportunism and the type of auditor, the ANOVA analysis was used. The results are as reported in Table 10.

As shown in Table 10, the null hypothesis about lack of relationship between managerial opportunism and type of auditor, cannot be rejected.

In this method, like the first one, the closeness of auditors to clients to obtain information is not a specific factor in obtaining specific information by the auditor. In the third method, to evaluate the association between obtaining

certain information by the auditor and the type of auditor with respect to internal and external auditors, Lambda correlation coefficient was used. Test results are presented in Table 11.

From the results in Table 11, it can be seen that the two variables are not related to each other. The results obtained from the two presented methods were supported. The lack of relationship between the managerial opportunism and type of auditor can be approved.

Thus, in the study of the relationship between the management opportunism and spatial distance between auditor and client, it is clear that these two have no correlation with each other and we can logically reject the second assumption of the research.

Ability to identify and define auditing problems

As shown in Table 12, four of the external auditors believed that they have a low ability to identify auditing problems,

Table 13. Mean and SD of the ability to identify auditing problems

Group	Mean	SD
Internal auditor	1.88	0.78
External auditor	1.8	0.7

Table 14. Test of average variance anisotropy and equality of averages of detecting auditing problems

Type of test	Average variance anisotropy		Equality test	
F-type test statistic and probability level	F	Probability level of 5%	T	Probability level of 5%
Numbers	0.24	0.62	-0.38	0.7
Results	No average variance anisotropy		Equality of averages	

Table 15. ANOVA for the ability to identify auditing problems

Type of test	Total Squares	Degrees of freedom	F-statistic	Probability level
Intergroup	0.08	1		
Ingroup	26.64	48	0.14	0.7
Total	67.72	49		

Table 16. Lambda correlation coefficient for the ability to detect auditing problems

Dependent variable	Value	Probability level
Managerial opportunism	0.00	1.00
Type of auditor	0.08	0.52

twelve of them believed an average ability to identify auditing problems, and nine people believed a high level of ability to detect auditing problems.

However, from internal auditors, one person believed that he/she has a low ability to identify auditing problems, fifteen of them believed an average ability to identify auditing problems, and nine people believed a high level of ability to detect auditing problems. Totally, five people believed that there is a low ability to detect auditing problems, twenty seven people believed a moderate level of detection of auditing problems and eighteen believed a high level of problem detection capability.

According to Table 13, the mean obtained for the first group, the Internal Auditor was 1.88 and external auditor 1.8. Also, according to Table 14, the Student's T test statistics was -0.38, which was considering the probability level of 5%. We can say that at this probability level; according to smaller size of the statistics than critical points, the null hypothesis about the equality of the average of ability index to diagnose auditing problems cannot be rejected. It can be concluded that the ability to identify auditing problems does not differ between internal and external auditors.

As shown in Table (14) two groups of statistics were used for variance anisotropy. The value obtained for this statistics was 0.24, which was due to the probability level of

5%, and indicates the smaller size of statistics F than the critical points. The null hypothesis about the homogeneity of variance between the two groups cannot be rejected. In conclusion, we can say that this model has no variance anisotropy.

In the second method, to examine the relationship between the auditor's ability to detect auditing problems and the type of auditing, ANOVA analysis was used -Table 15.

According to the results of Table 15, the null hypothesis regarding no association between the auditor's ability to detect auditing problem and the type of auditor cannot be denied. In the present method like the first one, the closeness of auditor to the client is not a factor in the ability of detecting auditing problems by the auditor.

Finally, in the third method; to examine the relationship between the ability to detect auditing problems and the type of auditor in terms of internal and external ones, Lambda correlation coefficient was used. The results have been reported in Table 16. From the results in Table 16 it can be found that the two variables are not related to each other. Thus, the result obtained from the third method, confirms the results obtained from two proposed methods. The lack of correlation between the extent of the auditor's ability to detect problems and the type of auditing can be approved. Thus, in the study of the relationship between

the ability to detect auditing problems and the spatial distance between the auditor and the client it was determined that they have no correlation with each other. So, the third assumption of the research can be rejected.

Conclusion

Since the issue of auditing quality and its improvement is one of the most important problems, there are many studies and theories in this area. Each of these studies which were conducted inside and outside the country often studied the influence of one variable on the auditing. In the present study, summarizing the theories and studies in the field, this study investigated the role of spatial distance between the auditor and the client in auditing quality of accepted companies in Tehran Stock Exchange. The results of this study indicated the significant positive effect of the spatial distance between the auditor and the client on the auditing quality. These results were consistent with the results of the study conducted by Zang et al., (2006). They conclude that geographical proximity or location can have a positive impact on auditing quality. Also, results of this study are not consistent with the study conducted by Dodge (2006). He concludes that auditing quality is lower for local residents than non-local ones.

Results obtained in this study, confirm the economic theory and available studies in this area. Summary of the most important results obtained in this study are as follows:

Having more information about the client does not give the auditor an ability to detect auditing problems. However it is important to note that economic factors and information inconsistencies between the auditor and client will cause a difficulty in transferring data. Reducing the spatial distance between auditor and client cannot increase the ability to detect auditing problems. However, by reducing the spatial distance between the auditor and the client, the level of financial data would be improved. But obtaining specific information from the client does not have any relationship with the spatial distance between the auditor and the client.

Also it has been concluded that management opportunism does not have any relationship with the spatial distance between the auditor and client. And finally the reports submitted by the internal auditors have more informational value than those of external auditors.

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