

Research article

Spatial Distance between Auditor and Client and Its Impact on Audit Quality on Companies Listed In Tehran Stock Exchange

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Abstract

This study examined Spatial distance between auditor and client and Its Impact on audit quality on companies listed in the stock exchange. . Survey type is the method that is used in empirical research. To investigate Spatial distance between auditor and client during years 2008 to 2012, 100 questionnaires were distributed and after completion of data were extracted. Using nonparametric methods, three distinct phases of the research has been used to check the hypotheses. The first method involves comparison of the indicator variables, the second method of analysis, ANOVA, correlation between spatial distance variables to be determined, and finally the third method is the use of a correlation coefficient. Research results show that, with decreasing spatial distance between the auditor and the client's financial information would improve the results, as far as economic factors and inconsistencies between auditor and client information because difficulty in ease of data transfer and reports submitted by the internal

auditors to report more data points provided by the independent auditors.
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Keywords: quality auditor, data transfer, between auditor and client locations, listed companies in tehran stock exchange

1 – Introduction

Since the Enron debacle and the subsequent collapse of Arthur Andersen, regulators, lawmakers, academic researchers, and the popular press have paid considerable attention to engagement-specific factors determining the auditor–client relationship and their impact on audit quality. The focus of this study is on a new engagement-specific factor that may play an important role in the development of the auditor–client relationship: geographic proximity between auditor and client, or auditor locality. Specifically, we examine whether the geographic distance between auditor and client plays a role in determining audit quality.

Informational advantages arising from geographic proximity are well documented in the contexts of portfolio decisions and investment performance (Baik et al. 2010; Bodnaruk 2009; Ivkovich and Weisbenner 2005), analysts' forecasting decisions (Malloy 2005), knowledge transfers (Audretsch and Feldman 1996; Audretsch and Stephan 1996), and the monitoring and regulatory effectiveness of the U.S. Securities and Exchange Commission (SEC) (DeFond et al. 2011; Kedia and Rajgopal 2011). If geographic proximity facilitates information transfers and monitoring, then auditors located closer to their clients should be better able to assess the clients' incentives and abilities for opportunistic earnings management. Such client-specific knowledge is vital for auditors to plan audits effectively, to identify relevant audit risks, and to interpret audit evidence properly, which in turn helps them rely less on management's subjective estimates when assessing accrual choices (Knechel et al. 2007).

Therefore, it is expected to facilitate the transfer of the economic imbalances between the auditor and client information and reports provided by local auditors (internal), rated more information on the external auditors (independent) they can get closer to the customer so it is easy to get specific information. thus the rating information, managerial opportunism is weak because of showing more information from the client to the auditor's ability to detect and locate problems in a better audit . In addition, it is expected that the difference in quality companies (clients) that operate within the geographical areas they are many and many more are included.

2 - REVIEW OF LITERATURE

2-1.Audit Quality

DeAngelo (1981) defines audit quality as the market-assessed joint probability that a given auditor will both detect material misstatements in the client's financial statements and report the material misstatements. Therefore, according to DeAngelo's (1981) definition, audit quality is a function of the auditor's ability to detect material misstatements (technical capabilities) and reporting the errors (auditor independence). Palmrose (1988) defines audit quality in terms of level of assurance. Since the purpose of an audit is to provide assurance on financial statements , audit quality is the probability that financial statements contain no material misstatements. In fact, this definition uses the results of the audit, that is, reliability of audited financial statements to reflect audit quality. Palmrose's definition presents actual audit quality. Since actual audit quality is unobservable before and when an audit is performed, a valid proxy is needed when

investigating the relationships between actual audit quality and other factors. Based on the guidelines stated in ISQC 1, compliance with the standard is perceived as high audit quality. The aim of auditors, the financial statements, thus ensuring quality, accountability means being free from material misstatement of the audited financial statements. In fact, this definition emphasizes the results of the audit, it means the audited financial statements forms reliability, show high quality auditor does. This definition leads to the following question: "How do users rate the reliability of audited financial statements assessment forms?" This is based on the quality of audits performed because of the financial statements can not be determined before the audit. Consequently, authentic quality audit focuses on defining Palmrose (Schauer, 2000).

Titam and Trueman (1986) have been defined Quality audit after audit the accuracy of the information that is available to investors, Palmrose definition similar to the definition of audit quality. Davidson & Neu (1993) define 'd' audit quality at the auditor's ability to detect and report the discovery of a material misstatement or manipulation done on the net know. However, Lam & Chang (1994) believe that the quality of audit services to be examined rather than to examine all, must be determined for each audit project singly.

Many other studies (Chung and Kallapur, 2003), and (Frankel et al., 2002), reporting bias can be used to infer and deduce the quality audit is used. Like the main parameters affecting the quality of the audit, they are both precautionary measure commitment. To complement these measures, (Chen et al, 2012) were used to guarantee the quality of the other two criteria.

On the other hand, the factors affecting the quality of audit services from the auditor's perspective, the general factors that affect the auditor's ability to detect a material misstatement in the financial or economic incentive to report a material misstatement of the discovery. Some of these researches are tested the quality of the auditor decision and its impact on the effectiveness and efficiency of audit. Many of these studies did not test the quality of audit services directly, but the factors that have led to improvements in the quality of the auditor and audit service quality is the result. These factors mainly are include the experiences of auditors, audit supervision, specialization and fees. For example, Libby & Frederick (1986) found that the amount is more experienced auditors, and their understanding of existing distortions increases in the financial statements. Hence, the auditor concludes that increasing the quality of auditing experience can be improved.

King & Schwartz (1999) are analyzed the extent of Supervision of the audit as a quality indicator when Auditors under different legal regimes work. Their results demonstrated that the administration predicted the function of punitive legal actions against auditors. Benito Arrunada (2000) found that auditors audit with particular expertise in a specific industry, the two main reasons are the higher audit quality. First, more familiar with the issues and problems in the implementation of continuous auditing, accounting and auditing industries the incentive to earn and maintain a reputation audit specific group of industries.

Willenberg (1999) examined the relationship between audit quality and auditor's preliminary recommendations on remuneration and concludes that the quality of audit services is affected by the auditor's acceptance of the proposed fee. The pricing of audit services and the audit is conducted in Bangladesh. The results based on firm size, audit risk and audit pricing of audit services are effective. (Karim 2010). the relationship was reviewed between audit fees and non-discretionary accruals for 8187 companies between 2000 and 2006. The results showed that the non-discretionary accruals and audit fees, there is a significant positive relationship. The audit fees are negatively associated with firm profitability. (Alali 2012)

2-2. Location auditors and audit quality

Location auditors can audit services through their impact on costs and their impact on audit quality, and audit fees affect. Evidence suggests that concerns about the high costs of switching auditors audited by auditors appointed encourage their non-local, non-local to local. In a report submitted to the Securities and Exchange Commission in June 1998, for example, 800 Travel System in Florida stated that their main reason for non-local auditor switching in Dallas, Texas, to a local auditor located in Tampa at the cost of higher of travel are transportation, telecommunications, etc. As in the example above, the local auditors within the audit cost can be reduced a lot. (Kim et al, 2010)

An audit firm typically provides audit services through a practicing office located near its clients. As noted by Francis et al. (1999), it is the local engagement offices, not the national headquarters of the audit firm, that contract for and oversee the delivery of audits and issue audit reports for the clients who are headquartered in the same geographical locale. In a related vein, former SEC commissioner Wallman (1996) emphasizes that auditing research should pay more attention to city-level (or office-level) analyses rather than national-level analyses because local practicing offices make the most of audit decisions with respect to a particular client.

The main focus of prior office-level studies has been on the questions of (1) whether auditor independence is impaired for the audits of large clients by individual audit offices (e.g., Chung and Kallapur 2003; Craswell et al. 2002; Reynolds and Francis 2000), (2) whether auditor industry expertise is firm-wide or office specific (e.g., Ferguson et al. 2003; Francis et al. 2005; Reichelt and Wang 2010), and (3) whether audit quality is associated with the size of the audit engagement offices (e.g., Choi et al. 2010; Francis and Yu 2009, 2011). However, prior literature has devoted little attention to the role of auditor–client geographic proximity in determining audit quality.

Research in financial economics provides evidence suggesting that geographic proximity between economic agents matters in explaining their decision-making behavior and contractual relationships. A growing body of the home or local bias literature in finance finds that equity investors overweight domestic (or local) stocks in their portfolio choices, primarily because they are more familiar with domestic (or local) stocks and have advantages in obtaining information (Coval and Moskowitz 1999; Covrig et al. 2006; Ivkovich and Weisbenner 2005). This informational advantage also enables local individual and institutional investors to better monitor firms (Baik et al. 2010; Peterson and Rajan 2002) and to earn superior returns than non-local investors (Bodnaruk 2009; Coval and Moskowitz 2001; Ivkovich and Weisbenner 2005). Furthermore, Malloy (2005) reports that geographically proximate analysts provide more accurate earnings forecasts than other analysts, suggesting that the former have an informational advantage over the latter.

A few recent studies in accounting and auditing also examine issues related to geographic proximity between economic agents. Kedia and Rajgopal (2011) find that firms located closer to SEC regional offices are less likely to restate their prior years' financial statements. The results of this study suggest that management's assessment of ex ante reporting costs is higher for firms located nearer to SEC regional offices because geographic proximity lowers information asymmetry and facilitates monitoring. DeFond et al. (2011) document that non-Big 4 audit offices located farther from SEC regional offices are less likely to issue going concern audit opinions, suggesting that non-Big 4 auditors' incentives to be independent are influenced by their geographic proximity to SEC regional offices. In sum, these studies indicate that geographic proximity mitigates information asymmetries and enhances monitoring effectiveness.

Local auditors through direct interaction with client executives and other employees than non-local auditors greater access to information about their client companies. They establish closer relationships and thus create a reliable communication channel with your clients than non-local auditors are natural opportunities. In addition, they learn to be more successful client media (Zang et al, 2012) (Choi et al, 2012) argue that the geographical proximity or local audit, audit quality is related because informational

advantages due to its proximity to the audit client's knowledge about the characteristics of the particular client, such as motivation, the ability too, the opportunity of opportunistic earnings management and audit risk, client business risk that can help.

So, as previously mentioned, the advantage of facilitating information and communication channels, which local auditors than non-local auditors to use it, it can result in more effective oversight can lead to higher quality audits. Will Resulting in higher quality audits by local auditors should be equal in all other circumstances, would be able to claim benefits in return for services rendered. In this case it can be a positive relationship between audit fees and auditor could see the location. Presenting two contrasting situations of local auditors audit the expenses faced with the question, whether local auditors are more expensive than non-local auditors are charged or not. In fact (Choi et al, 2012) concluded that despite other times, the audit fees charged by local auditors with those charged by non-local auditors are not much different. Studies in the literature show that the structure of the growing financial investment in domestic stocks over foreign stocks tend, largely because they are more familiar with domestic stock. There will be. Furthermore, Malloy (2005), which states that the immediate geographic analysts earnings forecasts more accurate than other analysts have stated offer and the first group than the second group are an information advantage and benefit information to predict the performance of staffs better leads.

Similarly, (Choi et al, 2012) concluded that, in close proximity, local auditors than non-local auditors are naturally more familiar with the location of the clients' information advantages are in contact with their clients.

Local auditors through direct interaction with client executives and other employees than non-local auditors greater access to information about their client companies. They establish closer relationships and thus create a reliable communication channel with your clients to have more opportunities than non-local auditors (Zang et al, 2012).

3 - Research hypothesis

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

The distance between the auditor and the client where there is a significant relationship between audit quality.

And secondary research hypotheses are as follows:

- 1 - remoteness and economic imbalances between the auditor and the client's difficulty in ease of transfer of information.
- 2 - information and reports provided by the independent auditors, internal auditors rated more information (external) is.
- 3 - near the client can easily get the specific information to the client.
- 4 - Points intelligence, weakens managerial opportunism.

4 - Research Methodology

Research, applied research and survey method is used. In order to collect data and information requirements of library and field research methods used. In the library, the theoretical study of Persian and Latin books and magazines collected in the field using a questionnaire, and after completion of the research data have been extracted. In addition to the analysis of research data, the average statistics for both internal auditors and external auditors to compare variables were used. In this regard, the three methods are used. The average of the indices for the two groups to be compared meaningfully. In the second method, a block ANOVA analysis of the impact of internal and external auditors, the variables are evaluated. And then the third method of correlation Lambda, is used to determine the correlation between variables; Thus, after data collection, questionnaires were coded and the code leaves the code recorded on a computer and then transfer listed and then use the software "" spss statistical analysis was performed. well in this study due to the limitations of 100 questionnaires by the auditors of companies in Tehran Stock Exchange for the years 2008 to 2012 have been completed, so that 50 questionnaire by the auditors

that the distance from the customer's location over 100 km, and 50 questionnaires by the auditors that the distance from the customer's location, less than 100 km, has been completed.

5 - Results of statistical hypothesis testing

5-1. Evaluate the ease of transfer of information between the auditor and client

The manner facilitate the transfer and exchange of information between the client and the auditor is one of the factors to be considered in order to reduce the cost. This is expected to facilitate the transfer and exchange of information between the client and the auditor, the company significantly reduce costs. Results show that the mean average of the first group, the Internal Auditor, 36/2 and the group's external auditors, 36/1 is zero out that same ease of transfer of information between the auditor and client to reject the hypothesis that the mean difference in the ease of transfer of information between the auditor and the client will be accepted. External auditors are done.

Table 1 . Average variance anisotropy equality test and the ease of data transfer for the two groups

Type of test	Test variance anisotropy		Test for equality of mean	
Type test statistic and probability level	F	The 5% level	T	The 5% level
Numbers	2/27	0/138	5/05	0/00
Results	Anisotropy of variance		Equality does not mean	

As it is clear from Table 1, to test the difference between the two groups, ANOVA F statistic is used. The statistics for the number 27/2 is due to the 5% level, indicating that the F statistic is smaller than the critical points of the likelihood is that the null hypothesis of homogeneity of variance between the two groups can not be ruled out possible. Closeness of the auditor to the client agent to accelerate data transfer between the auditor and the client. However, for ease of transfer of information between the auditor and client relationship with internal and external auditors of the ANOVA analysis can be used.

Table 2 . Analysis ANOVA For ease of data transfer for the two groups

	R ²	df	F	Sing
The group	12/5	1	25/5	0/00
Within the Group	23/5	48		
Total	36	49		

As it is clear from Table 2 that the null hypothesis of no association between auditor and client data with auditor's easy to be rejected. In the first method, the present method as well as the auditor of the client agent to expedite the transfer of information between the auditor and the client. The third way to facilitate the transfer of information between the auditor and client relationship with internal and external auditors in terms of the correlation coefficient is used. It is explained that the variable rate is the average correlation coefficient can not be used under the terms of the lambda method used. Results are reported in Table 3.

Table 3 . Lambda coefficient for ease of data transfer for the two groups.

Dependent variable	Value	Sing
Ease of data transfer	0/32	0/022
Type of auditor	0/56	0/004

The results in Table 3 can be found that the two variables are positively correlated with each other. The results of this procedure, the results of the proposed method is confirmed. Thus, the first hypothesis test results indicate that the data transfer between client and auditor of the Group Internal Auditors easier and more convenient external auditors are done. F statistic from the ANOVA analysis, number 5/25, and the correlation coefficient lambda equal to 32/0, the result obtained by the first method to be approved. The first assumes that the distance between the auditor and client data inconsistencies and economic factors cause difficulty in ease of data transfer is accepted.

5-2.The rating information provided by the Auditor Reports

Undoubtedly one of the most important issues in the relationship between the client and the auditor, the auditor's reports are discussed. To form one of the main tasks of the auditor's report is considered by the auditor. What is certain is that it depends heavily on the quality of the reports submitted by the auditors and rating information is contained in the report. Results show that the mean average of the results for the first group, the internal auditor is, 2/2 and the group's external auditors, 64/1. Null hypothesis of equal mean index score based on information provided by the auditor's report and rejected the hypothesis that differences in the mean scores of the information provided by the auditor's report be accepted. Hence, given that the average index for internal auditors, 2/2 and the external auditors, 64/1, it can be concluded that the rating information provided by auditors' reports on internal audit team of more and better external auditors are done

Table 4 . Average variance anisotropy and exchange intelligence test score reports of the auditors

Type of test	Test variance anisotropy		Test for equality of mean	
Type test statistic and probability level	F	The 5% level	T	The 5% level
Numbers	0/065	0/8	-2/7	0/00
Results	Anisotropy of variance		Equality does not mean	

As it is clear from Table 9, the variance difference between the two groups to test the F-statistic is used. The value for this statistic, 65/0, which is due to the 5% level, indicating that the F statistic is smaller than the critical points of the likelihood is that the null hypothesis of homogeneity of variance between the two groups can not be ruled out possible. The closeness of the auditor to factor in the high rating of customer information is a report provided by the auditor.

To investigate the relationship between intelligence score reports are provided by the auditor with respect to internal and external auditors can be analyzed using ANOVA. Results are reported in Table 10.

Table 5 . Analysis ANOVA Rate information for reports

	R ²	df	F	Sing
The group	3/9	1	7/3	0/00
Within the Group	25/7	48		
Total	29/6	49		

As it is clear from Table 5 that the null hypothesis of no relationship between data points provided by the auditor of the auditor's report is rejected. In the first method, the present method as well as being close to the customer's auditor is a factor in the rating information provided by the auditor's report is considered. A third way to examine the relationship between scores on intelligence reports by auditors with internal and external auditors in terms of the correlation coefficient can be used. Results are reported in Table 6.

Table 6 . Lambda coefficient for rating information provided by the Auditor Reports

Dependent variable	Value	Sing
Ease of data transfer	0/067	0/66
Type of auditor	0/28	0/04

The results in Table 6 can be found that the two variables are related to each other in a positive way. Thus, the results of the test the second hypothesis suggests that, rated the information provided by the auditor's report is based on geographical distance. Reports submitted by the internal auditors rated more information on the report provided by the external auditors. F statistic from the ANOVA analysis, number 3/7 and the lambda coefficient equal to 67/0. The second assumption that the information and statements provided by external auditors, internal auditors are more data points to be verified.

5-3• To obtain specific information about a client

The relationship between the client and the auditor to obtain certain information from a client's auditor for the audit is considered one of the important points. So that the more specific information from an existing client the more accurate precise of the auditor's work . Results show that the mean average of the results for the first group, the internal auditor, 08/2 and the group's external auditors, 88/1 is. Also, according to Table 7, test t-student as well as 918/0, obtained when considering the 5% level, we can say that at this level, the smaller the statistics obtained from the critical points at this level, the null hypothesis that the same out of certain information by the auditors can not be denied. Hence it can be concluded that certain information by auditors, internal auditors and external auditors in the two groups did not differ.

Table 7 Average variance anisotropy test and equality of access to customer-specific information

Type of test	Test variance anisotropy		Test for equality of mean	
Type test statistic and probability level	F	The 5% level	T	The 5% level
Numbers	0/123	0/72	0/918	0/36
Results	Anisotropy of variance		Equality does not mean	

Also according to Table 7, the F-statistic for testing the difference of variance between the two groups has been used. Value obtained for this test 123/0, which is due to the 5% level, indicating that the F statistic is smaller than the critical level has been mentioned, the null hypothesis that the homogeneity of variance between the two groups can not be ruled out possible. In conclusion we can say that this model has no specific information variance anisotropy and internal auditors the external auditor did not differ between groups. The proximity of certain information by the auditor to audit the customer what is not. However, for specific information related to audit by the Auditor with the types of analysis used ANOVA. Results are reported in Table 8.

Table 8 Analysis ANOVA For specific information

	R ²	df	F	Sing
The group	0/5	1	0/84	0/36
Within the Group	28/5	48		
Total	29	49		

As can be seen from Table 8, the null hypothesis of no association score based on information provided by the auditor of the auditor's report can not be dismissed. Hence, as in the first method, the present method of operating

the information given by the audit client, the auditor is not. The third way to evaluate the association of certain information by the auditor with respect to internal and external auditors of the Lambada correlation coefficient was used. The results of the tests are presented in Table 9.

Table 9 Lambada correlation coefficients for specific information

Dependent variable	Value	Sig
Ease of data transfer	0/00	1/00
Type of auditor	0/28	0/12

The lack of specific information by the auditors in connection with the audit be approved. Thus, the results of the test indicate that the third hypothesis, specific information from a spatial distance between the auditor and the client has no significant relationship with the client. F-statistic analysis, ANOVA, 84/0 and the correlation coefficient lambda 0/00 to all these numbers suggest that the lack of specific information related to a customer's location between auditor and client. The spatial distance between the auditor, the client does not close - could be a factor in a customer-specific information. The third assumption that the customer can get close to the customer-specific information that can not be easily accepted.

5-5• Managerial opportunism

Why particular information for external auditors, internal auditors are not comparable managerial opportunism are examined in relation to specific information. But managerial opportunism can be compared between the two groups of auditors.

6 - Conclusion

Since the issue of audit quality and its improvement is one of the most important problems facing studies and there are many theories in this field. The results of this study indicate a significant and positive effect on the spatial distance between the auditor and the client is on audit quality. by Dodge (2006) is not identical. He concluded that audit quality, in general, the non-local to local auditors will be lower. Results obtained in this study, the economic theory and studies in this field to confirm. It also summarizes the main results obtained in this study are as follows:

- 1) having a better ability to detect information from the client to the auditor and the audit does not clear the problem.
- 2) can not reduce the gap between the auditor and the client's location, the ability to detect and locate problems and increased accountability.
- 3) managerial opportunism spatial distance between the auditor and the client is connected.
- 4) Specific information on the spatial distance between the auditor and the client is not associated with the customer.
- 5) The distance between the auditor and client data inconsistency and economic factors cause difficulty in transferring data is easy.
- 6) reports submitted by the internal auditors to report more data points provided by the external auditors.

7- Suggestions for future studies

Due to the importance and necessity of further study revolves around the current study, the following topics are recommended for future studies.

- 1 - The relationship between auditor and client-specific information risk Corporation.
- 2 - The relationship between managerial opportunism and corporate profitability.
- 3 - The relationship between spatial distance between the auditor and the client profit corporation

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