The Effect of Audit Quality on the Share Prices in Tehran Stock Exchange

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Abstract: The purpose of this study is to determine whether audit quality has any significant impact on market value per share of companies listed on the Tehran stock exchange. A sample of 108 non-financial firms listed on the Tehran stock exchange over the period 2008-2013 is used. Audit quality indicators include audit firm size, auditor tenure, audit fees and audit client importance. Market price per share (MPS) was derived directly from Tehran board stock exchange. Multiple regression analyses were conducted on the data. The research findings show there is a meaningful relationship among audit firm size, audit fees and audit client importance with MPS but there is not a meaningful relationship between auditor tenure and MPS. Finally, audit quality has significant effect on MPS.

Keywords: Audit Quality, Market Price per Share, Tehran Stock Exchange

1. INTRODUCTION

Stock value of a company is shown in order to present the rate of its future profit(Lu, 1989) and it is confirmatory of the reason why investors seek crucial interests in profitability reports in a firm. As a result, company managers use a special strategy to intentionally manipulate company profit in order to be in compliance with the predetermined purposes including programming and doing special activities such as manipulation, achieving high levels of income and price fluctuations (Shipper, 1985). Profit manipulation activities might be done due to various reasons, for example when managers attempt to transfer personal information to the financial statement users. Transmission of personal information is done so that the information, which is not accessed by the public, would be transferred to the shareholders; in such way that they can properly evaluate their expectations by using this information. If the information transfers important concepts to analyzers and users of financial statement; thus disclosure of companies' information might have a positive impact on the share price of the firm; because a higher quality of profit is received.

Reported profit quality and the effective audit quality ability might limit the presentation of inaccurate information and manipulated financial statements of the companies throughout the world. Given the recent financial scandals, companies' audit has become considerably controversial (Badawi, 2008). Differences in the quality of audit lead to major changes in the validity of auditors and reliability of profitability reports of the companies. Recent financial scandals of the companies have created a large issue for honesty, validity, profitability and association of the audit performance. Badawi (2008) published a list of the companies involved in the audit scandals associated with the weak audit quality and profit manipulation over the past two decades. The main issue here is whether fall of the companies is the result of weak audit quality and inability of auditors' performance in order to prevent inaccurate profit reports or inaccurate financial statements or not?

Various countries have adopted different standards and instructions about audit quality in order to prevent the companies from falling. These laws are mainly indicative of the legal support which means guaranteeing and maintaining the unity of audit report in association with the profit of large companies and

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financial statements.For the first time, the audit quality was defined byDeAngelo (1981). He has defined the audit quality as the evaluation and inference of the market of the probability of the ability of the auditor in discovering important discovered deviations. European Organization of Supreme Audit Institutions provided a definition of audit quality in 2004 which is the rate of ability and natural characteristics of the auditor which can be estimated. Thus, the audit process estimates the probability of basic deviation and reduces the possibility of undiscovered important deviation to a proper confidence level (Watts & Zimmermann, 1986). Audit quality has been recognized for its effectiveness on financial reports and investors' trust (Levitt, 2005). Many of the audit scandals of the past decade have been caused by explicit manipulation of audit data through discretionary accruals including recording nonexistent stocks and hiding debts even in the audited financial reports. Knechel (2009) believes that companies that are involved in audit scandals, where the audit is technically accurate, have mainly caused more complexity in the financial health of the organization and the outcomes of the performance (Knechel, 2009). Wells (2005) reported that manipulation of audit information and financial reports through accruals might be related to the pressure on companies' accountants, auditors and managers of the organization to show more profit. One of the advantages of accounting is providing the information required by the investors for proper and effective investments in the companies and since the information associated with profitability affects the decisions more than other information available in the financial statements, the audit quality might act as a profit announcement signal and cause investors' reactions to the share price of the companies.Given the expressed issues, the main purpose of this research is to review the impact of audit quality on the share price of the companies accepted in Tehran's stock exchange.

2. THEORETICAL PRINCIPLES OF THE RESEARCH

Audit Quality

According to the reports of IAASB (2011), many attempts have been done in the past in order to identify the concept of audit quality but none of them has led to a definition which would be recognized and accepted internationally. Audit quality is basically a complex and multidimensional concept. A classical definition of audit quality used by most of the audit researchers is DeAngelo's (1981)definition who has defined audit quality as the evaluation and inference of the market of the probability the ability of the auditor in discovering important discovered deviations. In this definition, defect discovery measures the audit quality in the form of knowledge and ability of the auditor (Hassas & Kaveh, 2010). This definition highlights two important aspects of audit quality: 1- qualification of audit institutions; 2- independence and impartiality of the auditor. This definition has been very useful for the studies on audit.

Davidson, *et al.* (1993) state that audit quality is the accuracy of the auditor in the report of audited information; whereas Wallace (1987) shows that audit quality is the measurement of auditor's ability to reduce the mistakes and errors and promote the accuracy of accounting information. Audit quality is influenced by many direct and indirect factors. Interpretation of audit quality is different between shareholders given the rate of auditors' participation. Audit quality might be reviewed from three aspects: 1- input; 2- output; 3- underlying factors. Input factors of audit quality, which is distinguished from audit standard, are: personal features such as auditors' skill, experience, moral values and attitude. Another important input is the audit process, accuracy of audit methods and the impact of used audit tools. Audit quality output is the important effects considered by investors in their evaluations of audit quality. These impacts are audit's report (if they clearly transfer the audit result, it is considered as a positive impact) and audit's association with the principles of strategic system about issues such as qualitative aspects of financial reports of the reviewed unit can have a positive impact on audit quality. In a wider level, underlying factors are: 1- rules and regulations, 2-legal supervision on audit services and 3- the quality of executable report framework (Schilder, 2011).

Measurement of Audit Quality

Reviewing the past studies concompanies that there is not an agreement about the measurement of audit quality. DeAngelo (1981) presented a two-dimensional definition about audit quality: 1-important deviation shall be specified, 2- important deviation shall be reported. Audit quality is influenced by other factors. Since 1981, studies on accounting attempted to define, measure and study various dimensions of audit. DeAngelo (1981) reasons that great auditors are more motivated to present reports with high quality, because they value their reputation so much (Sajadi, Farazmand, & Tajedini, 2013). Another assumption is that auditors with many financial sources and great wealth, due to the risk caused by lawsuits are more motivated to present a report with a high quality; because large audit institutions have great wealth and financial sources and they have so-called "big pocket". Since large audit institutions, due to their prominent insurance role and also maintenance of their reputation, lead to reduction of informational risk which causes a reduction in the investment cost (Sajadi, Farazmand, & Tajedini, 2013). Some of the studies have used audit compensation for measuring audit quality. Palmrose (1986) found out that there is a significant relationship between audit compensation and the size of audit institution.

Auditor's independence has been defined as an impartial mental approach of the audit in the matter of making a decision in the process of audit and financial reporting. Auditors' independence refers to the quality of impact, confidence or bias. In case of lack of independence, audit services will be harmed to a large extent (Sweeney, 1994). Auditor's independence hasn't been used in this study, because audit compensation indirectly measures audit's independence. Another one of the indexes of measurement of audit quality and its ability in accreditation is the audit tenure. The longer the audit tenure of an auditor is, his or her knowledge of the employer and his or her expertise in a specific industry increases and it increases the audit quality (DeAngelo, 1981).

Audit Reports and Share Price of the Companies

Financial reports are necessary for monitoring purposes. Independent audit of the firm's financial statements provides this control and supervision. The principle of information disclosure in the respect of achieving confidence of the associated laws is reliable information so that shareholders would make rational decisions. Shareholdersneed the audited financial statements in order to make the decisions associated with investment and evaluation of the risk and return of their investment expectations. Auditors potentially provide this confidence that the financial statements provided by the management lack any kind of important deviation (Watts & Zimmermann, 1986). Therefore, investors use audit reports as a tool to promote the reported financial information. McNicholes (2008) and other studies on profit management have concentrated on the impacts of share price associated with the inaccurate information associated with the profit. Investigational studies have reviewed the profit management associated with stock redemption, stock purchasing, and abnormal return of stock. In addition to reviewing the abnormal stock return, previous studies have also reviewed market's reaction to fraudulent financial reporting. Some evidences of the studies by Palmrose, *et al.* (2004) showed that market's reaction to the disclosure of manipulated information is negative in average. This result indicates that investors interpret this information as bad news. Higher levels of accruals are indicative of low profit quality. In other words, the extent to which a company trusts accruals to reduce pure income is caused by low profit quality. The first studies for reviewing this subject have shown that in contrast with the hypothesis of efficient market, not adding cash flows and commitment components in the identification of stocks, which will most probably lead to the ascending rise of price, is very important (Swanson & Vickrey, 1997). Therefore, the results of these studies show that the prices of stocks are not completely reflective of the information available about the liability of cash flow and promissory components of profit. Certain external factors might affect the share price of each company. These factors are: operational cash flow (OCF), financial lever (LEV) and company size.

Operational Cash Flow (OCF)

It is indicative of this claim that companies with high cash flow (as a result of high probable profit) participate in earning smoothing in order to increase profit. Becker, *et al.*(1998) argued that operational cash flow has a negative relationship with discretionary accruals. Indirect measurement method can be used for all years. Pure subtract of income has been introduced before abnormal accruals of the total of operational cash flow accruals for a potential control in the models. Negative coefficient is expected in this variable.

Financial Lever (LEV)

It means to which percentage companies' assets have been supplied from the debts. Financial lever is the ratio of the total of firm's debts to the total of its assets at the end of a financial year (Fernando, Elder, & Abdel-Meguid, 2008). Beckerand *et al.* (1998)believe that there is a scale of financial lever in order to control the probable effects of profit achievement and value of stock market. Therefore, a positive relationship is predicted between market value of each stock and financial lever (LEV).

Company Size (Coy Size)

Political cost hypothesis (size) states that large companies, which are more scrutinized politically, pay relatively more expenses in comparison with other companies and thus in order to escape from these expenses, they tend to present low profit (Bauwhede, Willekens, & Gaeremynck, 2000). The size of the client company is estimated by all assets. This hypothesis shows a negative coefficient.

3.   RESEARCH LITERATURE

Alavi Tabari, Khalife Soltan and Shahbandian (2009) in an article with the head of ''audit quality and profit forecast'' studied the association between audit quality and profit forecast. In total, the results of their study showed that the audit quality that is characterized based on the size of audit firms and the auditor's industrial expert, is associated with profit forecast. Available evidence suggests that the companies that are audited by expert auditors in industry, have higher profit forecast and lower profit deviation (diversion of profit). Also the size of the audit firm is related to profit forecast deviation. (Hassan, Ahmad, & Neda, 2009). Hassas Yegane and Azinfar (2010) in an article with the head of '' the association between audit quality and size of audit firm'' examined the relationship between audit quality and size of auditor (audit firm) in Iran. In this study the audit institutions which were member of the population of CPAs were as small auditors and the Audit Organization, due to many staff and longer history is considered as large audit. The results of this research indicated that there is a significant and inverse relationship between audit quality and size of auditor (audit firm). Nonahal Nahr, Jabbarzade Cangarloei and Yaghoubpour (2010) in an article with the title of '' the relationship between audit quality and reliability of accruals'' reviewed the association between audit quality and reliability of accruals. The inference of research showed that the audited companies by more qualified auditors in compare with companies audited by lower qualified auditors, are of higher stability factor of accruals and thus have high reliability. In a research, Malekian Kalle Basti et al. (2011) studied the association between the difference of proposed prices between stock buying and selling and audit quality in Iran capital market. The research findings suggests that there isn't any significant relationship between big audit firms and the difference of proposed price of stock buying and selling, but there is a negative and meaningful relationship between the number of consecutive audit years and the proposed price of stock buying and selling. Laam and Chang (1994) in a research found that in general big audit firms don't necessarily provide better quality than small ones. Chritnsn and Damesky (2007) in a research on the influence of conservatism and audit quality on the companies' stock value in the market, resulted that the employer's stock value doesn't change with choice of auditor type. Chahn et al. (2001) found that companies with relatively high levels of accruals tend to have low level of performance, while companies with relatively low levels of accruals tend to ascend to 12-36 months periods after accurate disclosure of financial

information. In a research, Balsam *et al.* (2003) tried to establish a more or less distinct relationship between audit quality and stock price of companies and the effect of this relationship on profit quality reported in lots of companies around the world. Their studies showed that it's expected that the audit quality reduce the amount of earnings manipulation by corporate managers, and at last increases the stock price. In a research, Bahin *et al.* (2008) defined the audit quality with two independent variables of the auditor's industrial expert and auditor's size. The result of research showed that the companies that are audited by more qualified auditors, have more accurate profit forecast and the companies that audited by auditors other than 5 big companies, have more deviation of profit expectancy. Chantao & *et al.* (2007) in a research considered audit quality evaluation criteria as profit reaction coefficient and showed that there is a positive relationship between size of audit firm and the auditor's perception of profit quality. Okoloie & Izedonmi (2014) in an article with the head of '' the effect of audit quality on companies' stock price in Nigeria'' investigated this issue that whether the audit quality has a significant effect on companies' value of stock market or not? In this research, they used the variables of size of audit firm, the auditor's concession, the auditing tenure period and the importance of auditing for auditee for evaluating the audit quality. The results of their study revealed that audit quality has a meaningful effect on the value of companies' stock market.

4. RESEARCH HYPOTHESES

As mentioned, the present research seeks to review the impact of audit quality on the share price of the companies accepted in Tehran's stock exchange. Thus, by taking theoretical principles and research literature into consideration, some hypotheses have been developed as follows:

First hypothesis: there is a significant relationship between the size of audit institutions and stock price of the companies.

Second hypothesis: there is a significant relationship between auditor tenure and stock price of the companies.

Third hypothesis: there is a significant relationship between audit compensation and stock price of the companies.

Fourth hypothesis: there is a significant relationship between the extents to which the client considers audit important stock price of the companies.

5. RESEARCH METHODOLOGY

The present research is of the correlation – causal type (by using previous information). The information collection of the research has been done in two stages. At the first stage, the library method has been used to develop the theoretical principles and the second stage, in order to calculate the research variables, the internet site of the stock exchange organization has been used. at this stage, after gathering the statistical data, in order to do the required conclusions and calculations, the Excel software and in order to test the research hypotheses the SPSS and Eviews software have been used.

Statistical Population and Sample

Statistical population of this research is compose of all of the companies accepted in Tehran's stock exchange between the years 2008 to 2013 and in order to select the sample, all of the accessible data has been used. At the first step, all of the companies which were able to participate in the sampling were selected. At the second step, among all of the available companies, companies which haven't been qualified for any of the following conditions were omitted and ultimately, the remained companies have been selected for doing the test:

    1- Companies shall not be in mediation, investment, leasing and insurance companies.

2- In order to be able to compare information, the financial periods of the companies shall end in March.

3- Companies shall not stop their activities during the research period.

4- The companies' information required by the research shall be accessible.

Ultimately, a number of 108 companies accepted in Tehran's stock exchange, equal to 648 companies, were selected as a sample.

Research Model

In this section, the model used for determining the relationships between independent variables and the dependent variable are expressed in the hypotheses. In this research, in order to test the relationship between audit quality and stock price in the companies accepted in the stock exchange, the Ohlson(1995) model has been used. This model has been used by Amir (1996) and Collins, *et al.* (1997). The regression model of the relationship between audit quality and stock price is as follows:

$$MPS_{i,t} = a_0 + \beta_1 AFS_{i,t} + + \beta_2 AF_{i,t} + \beta_3 AT_{i,t} + \beta_4 ACI_{i,t} + \beta_5 CFO_{i,t} \beta_6 CoySize_{i,t} + \beta_7 Gwth_{i,t} + \beta_8 Lev_{i,t} + \beta_9 EPS_{i,t} + \beta_{10} BVPS_{i,t} + e_i \tag{1}$$

In the model above, MPS which is the market price of each stock as the dependent variable; AFS which is the size of audit institution; AF which is the audit compensation; AT which is the continuity of audit's choice; ACIwhich is the extent to which the client considers companies' audit to be important as independent variables and CFOwhich is the operational cash flow; Coy SIZE which is company size; Gwth which is the rate of expected growth; LEV which is the financial lever; EPS which is the profit of each share before unexpected items and BVPS which is the book value of the rights of shareholders have been defined as the control variables. i is the symbol of the considered company and t is the symbol of the considered year.

MPS: in this research, following researches of Ohlson (1995) and Amir (1996), the price of stock market at the end of financial year has directly been achieved from the financial statement of the accepted companies in the stock exchange.

AFS: the size of audit institution is a nonexistent variable which is the number 1 (one) of the company has been audited by the audit organization and if not, it is the number 0 (zero) (Hassas & Kaveh, 2010).

AF: in this research, according to the researches of Palmrose (1988) and Copley (1991), who have defined audit compensation as a criterion of auditor's independence, this variable is calculated as a natural logarithm paid by these companies to the audit institutions. The compensation paid by the companies has also been extracted from the annex notes of the financial statements of the companies accepted in the stock exchange.

AT: in this research, in order to calculate the continuation period of auditor's choice, if it is audited in three years or more by the audit institution, the number one is assigned to it and otherwise, the number zero is assigned to it (Ebrahim, 2001).

ACI: in this research, ACI has been defined as the importance level of audit for the client. If the net sale of the company is more than 100 million dollars, in this case the company's audit is considered to be important for the client. For this intention, this variable is shown by the number 1 if it is important and if not, it is shown by the number zero.

OCF: in this research, following the research of Decho, *et al.* (1995), in order to calculate OCF, the operational cash flow has been considered as a percentage of all assets at the end of the year t.

Gwth: the expected rate of company's growth is calculated through the ratio of stock market value to the book value of the shareholders (Bawn & et, 1987).

Coy Size: it means the natural logarithm of the total of company's assets and the more the total of company's assets is, the company's size gets larger (Fernando, Elder, & Abdel-Meguid, 2008).

LEV: this variable which is indicative of financial lever has been defined as the ratio of total debts to total assets.

BVPS: the book value of each share is the ratio of the rights of shareholders to the number of common stock released by the company. In order to determine the book value of each stock, the debts are subtracted from the company's assets and the result, which is the rights of shareholders, is divided into the number of common stocks released by the company.

6. RESEARCH FINDINGS

Kolmogorov-Smirnov Test

In this research, by using the Kolmogorov-Smirnov test, the normality of the variables has been reviewed. H_0 and its opponent hypothesis are written as follows:

H_0: data follows normal distribution for the dependent variable

H_1: data doesn't follow normal distribution for the dependent variable

Table 1
Kolmogorov-Smirnov test

H_0	Significance level	Number of observations
It is confirmed	0.238	108

Resource: research findings

As it can be seen in table 1, since the significant level is equal to 0.238 and more than 5%, so at a 95% confidence level, the H_0 is confirmed, which means that data follows the normal distribution for the dependent variable.

Descriptive Statistics

Table 2 shows the descriptive statistics of the dependent and independent variables of the research.

Table 2
Descriptive statistics of the research variables

Variables	Mean	Medium	Maximum	Minimum	Standard deviation
MPS	3967.86	2307	24090	11.253	4096.89
AFS	0.65	1.2	1	0	0.44
AF	8.58	8.65	9.42	1.67	0.30
AT	3.86	1	3	0	1.70
ACI	0.62	1	11	0	0.67

Resource: research findings

According to the information of table 2, the indexes of mean, maximum, minimum and standard deviation has been calculated. Mean and medium of the variable of the market price are 3967.86 and 2307. Mean and medium of the audit institution size are equal to 0.65 and 1.2 which shows that 65% of the selected sample companies have been audited through audit organization. Continuity of auditor's choice, with a mean and

standard deviation of 3.86 and 1, shows that the period of auditor's choice for the selected sample companies is averagely four years. Mean and standard deviation of the variable of the extent to which a client considers company's audit important are equal to 8.14 and 2.5 which is indicative of this issue that averagely, 62% of the sample companies are important for the client in terms of audit.

Data Analysis

As it was also expressed in the previous sections, the purpose of this research is to review the impact of audit quality on the share price of the companies accepted in Tehran's stock exchange. There are various methods for estimating a pattern with combined data which are divided into two categories in a conclusion:

    a- Model estimation with the assumption of similarity of intercept for all sections (companies).

    b- Model estimation for the assumption of the difference of intercept for all sections (various companies) with the two methods of random or fixed impacts.

    Now, in order to guarantee which of these methods are more sufficient, firstly the F-Limer test shall be used. This test depends on the determination coefficients (R^2) obtained from the two methods of combined and consolidated effects which tests whether regression determination coefficients with combined effects is significantly larger than the determination coefficient of consolidated regression model or not? The results obtained from the F-Limer test have been shown in table 3.

Table 3
Significance test of the whole mode

Explanation	F-Statistic	An error level of 5%
F-Limer test for reviewing the model	242.9882	0.0000

Source: research findings

As it is seen, the value of the calculated significance level statistic is equal to zero and less than 5%; therefore the H_0 is rejected and rejection of H_0 is indicative of the fact that the intercepts are different for the sections (companies) and using the OLS method is incompatible in this case and it won't be efficient. Thus, the results of the combined model shall be considered carefully. At the second stage, in order to specify that we use the fixed effects method for model estimation or the random effects, we use the Hausman test. This test reviews the following hypotheses:

H_0: compatibility of the estimations of random effect

H_1: compatibility of the estimations of fixed effect

Table 4
Results of Hausman test

Explanation	Test statistic	0% error level
Hausman test for reviewing the model	62.42084	0.0000

Source: Research findings

The calculated significant level of this test is equal to zero and less than 5%. Thus, the H_0 is rejected and the result is that the best type of estimation is the fixed effect method. Then, the results of the research model have been shown in table 5 with the method of panel data with fixed effects.

Table 5
Results obtained from the estimation of the research model

$$MPS_{i,t} = a_0 + \beta_1 AFS_{i,t} + + \beta_2 AF_{i,t} + \beta_3 AT_{i,t} + \beta_4 ACI_{i,t} + \beta_5 CFO_{i,t} + \beta_6 CoySize_{i,t} + \beta_7 Gwth_{i,t} + \beta_8 Lev_{i,t} + \beta_9 EPS_{i,t} + \beta_{10} BVPS_{i,t} + e_i$$

Variables	*Dependent variable: stock price*		
Variables	*Coefficient*	*T*	*P-value*
Fixed coefficient	8.972	75.622	0.0000
AFS	3.81	8.65	0.000
AF	13.61	4.57	0.0000
AT	7.72	4.54	0.65
ACI	0.252	0.37	0.0000
CFO	6.55	1.92	0.05
Coysize	3.76	0.49	0.62
Gwth	2.64	1.41	0.015
Lev	-1.62	0.52	0.36
EPS	0.27	-0.03	0.96
BVPS	-0.01	-0.7	0.78
F-Statistic		242.9882	
P-value		0.0000	
R^2		0.29	
Moderated R^2		0.26	
Durbin-Watson statistic		1.9	

Source: research findings

According to the results estimated from the model, it can be concluded that the research model is significant; because the rate of significance level (P-Value) of the F-statistic is equal to 0.000 which is less than 5%. Thus, in the 99% confidence level, the significance of the research model is accepted. On the other hand, the Durbin-Watson statistic has been calculated for the regression model which shows the number 1.9. Since this number is between 1.5 and 2.5, it can be concluded that the research model doesn't have an autocorrelation problem. The rate of moderate determination coefficient of the model is equal to 0.26. This statistic shows that about 26% of the changes of the dependent variable can be described by the independent variables. Then, given the model statistics are confirmed, research hypotheses will be reviewed.

First Hypothesis

There is a significant relationship between the size of audit institutions and stock price of the companies.

The results of table 5 show that there is a significant relationship between the size of audit institutions and stock price in the companies accepted in the stock exchange at the 5% error level. The coefficient of the size of audit institutions in this model is positive (3.81). The results indicate that there is a significant relationship between the size of audit institutions and stock price of the companies; therefore, great audit institutions, due to the maintenance of reputation, leads to reduction of informational risk and enhancement of the reporting quality which in its turn, leads to the enhancement of audit quality and therefore enhancement of stock prices of the companies.

Second hypothesis

There is a significant relationship between auditor tenure and stock price of the companies.

According to the results of table 5, there is not a significant relationship between auditor tenure and stock price in the companies accepted in the stock exchange; because the P-value is equal to 0.65 and it is more than 5%. The results express that by increasing the audit continuity, the stock prices of the companies decreases. Thus, a close relationship between the client and auditor leads to too much closeness between them and this closeness harms to auditor's independence and it has led to reduction of audit quality.

Third hypothesis

There is a significant relationship between audit compensation and stock price of the companies.

According to the results of table 5, there is a significant relationship between audit compensation and stock price of the companies accepted in the stock exchange at the 5% significance level. The results express that the stock prices react to the audit compensations positively. In other words, in investors' opinion, audit compensations leads to the enhancement of the relationship between companies' information and stock price which leads to the enhancement of audit quality in its turn.

Fourth hypothesis

There is a significant relationship between the extents to which the client considers audit important and stock price of the companies.

According to the results of table 5, there is a significant relationship between the extents to which the client considers audit important and stock price of the companies accepted in the stock exchange. The coefficient of the extents to which the client considers companies' audit important(0.252) is positive. The results indicate that most exchange companies are audited by the audit organization or audit institutions which is indicative of the high level of importance of companies' audit in clients' opinion.

7.   DISCUSSION AND CONCLUSION

As expressed, one of advantages of accounting information is providing the information required by the investors for investing in the companies and on the other hand, in order to make the investors trust this information, services of audit profession are needed. The information report audited by the audit institutions and audit organization leads to the enhancement of audited information quality and ultimately, it affects the stock price of the companies.

In the present research, the relationship between audit quality and stock price of the companies accepted in Tehran's stock exchange is reviewed. In order to measure the audit quality, the variables of the size of audit institution, auditor's tenure, audit compensation and the rate of client's importance has been used.

The results of the result showed that there is a significant relationship between the size of audit institution, audit compensation and the extent to which the client considers companies' audit to be important and the stock price of the companies which are in compliance with the research done by Okoli and Izadnami (2014) Belsam, *et al.* (2003).

The research results also showed that there is a significant relationship between auditor's tenure and the stock prices of the companies. The continuity of auditor's choice leads to the reduction of the quality of financial information and therefore the reduction of audit quality and it will ultimately have a negative impact on the stock price of the companies which is in compliance with the research done by Malekian Kalebasti, *et al.* (2011).

Market's perception of the audit quality done by auditors' affects the stock price of the companies. Company managers ensure their shareholders that their interests are monitored. Therefore, this supervision leads to the enhancement of demand for audit quality.

Given the obtained results, although the variable of the auditor's choice tenure didn't have a significant impact on stock price of the companies; but since the other variables significantly affected the stock price, it can be concluded that audit quality significantly affect the stock price of the companies.

7.1. Applicable Recommendations

- Given the results of this research, that the auditors' tenure is averagely 4 years, the need for the services of the audit population shall be supported by the associated laws. Since the audit's tenure might have some negative impacts on his or her independence, professional institutions such as accounting and audit shall consider a valid framework for audit's independence and tenure.

- Determination of specific criteria for audit quality by the audit organization such as tenure, compensation, etc. and measurement of audit quality based on these criteria, profit manipulation of the financial reports by the companies are reduced and therefore it leads to the enhancement of investors' trust to financial reports.

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