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Determinants of Choice of Auditors in Nigerian Quoted Firm

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Abstract: *The study examined factors that determine choice of auditors in Nigerian Quoted Firms. As a quantitative study, the survey research method was adopted. The data for the study were gathered from both primary and secondary sources. The population of the study was 120 shareholders and sample size was 100. The primary data were collected through the administration of structured questionnaire, while the secondary data were sourced from annual accounts and reports of sampled companies in Nigeria. Out of 120 copies of the questionnaire administered to respondents who were purposively selected shareholders of the quoted firm in south eastern part of Nigeria, 100 copies of the questionnaire representing 83% were returned and analyzed. Data collected were analyzed using both descriptive and inferential statistics. Data analysis was done using logistic Regression tool and the results showed that: international coverage and long-term relationship with current auditors largely influence the choice of auditors in Nigerian quoted firms, and that companies prefer to work with the big-four (4) audit firm. The study concluded that emphasis should be on the ability of audit firms to provide quality audit services. Among recommendations made were that quoted firms in Nigeria should appraise the quality of the auditors before selection, and that the non big four audit firms should stress on quality in order to increase their audit market share.*

Key words: *shareholders, Auditors choice, Quoted firms, Audit markets*

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1.0 INTRODUCTION

Audit is no doubt a consequence of information asymmetry, brought about by the management of entities being better informed than the owners. The Report of the Committee on Basic Auditing Concepts, published in 1973 by the American Accounting Association (AAA) defines auditing as ‘a systematic process of objectively obtaining and evaluating evidences regarding assertion about economic actions and events to ascertain the degree of correspondence between those assertion and established criteria and communicating the result to intended users”. However, because managers are responsible for reporting to the owners who cannot observe and possibly caution on the actions of the managers, the reports so prepared and presented by them may contain errors, material misstatements and even fraud; hence, the need for an audit. There is a consensus that the pioneer seminar work of Simunic (1980) triggered scientific inquiry in this area. Since then, various countries have been understudying their audit markets (Kenny, 2014).

The Nigerian business environment has been perceived in some quarters as not too conducive to investors; both local and foreign. Adjudged reasons for this assertion include the inability of financial reports to meet the needs of this group of users. The prevalence of fraud, excessive earnings management and other financial crimes in the country has reduced the level of confidence reposed in these financial statements; and in the ability of these statements to perform their requisite functions. In light of the cost of frauds to the business and the offender, it is important to develop strategies to prevent or detect business fraud, taking a cursory look at the risk factors associated with business, giving due attention to the motives attached with it, and establishing how to effectively manage it on a daily basis (Akinjobi and Omowumi, 2010).

Despite the ease of use of large numbers of audit suppliers, the audit market is conquered by only a small number of large audit firms called the “Big Four”. The Big four audit firms in the country are: KPMG Professional Services; Ernst and Young (E & Y); Akintola Williams Deloitte (AKWD); and Price waterhouse Coopers (PWC)]. According to the World Bank (2004), the ‘Big Four’ international accounting firms audit about 90 percent of listed companies in Nigeria, while the 15 national firms with international association audit the remaining 10 percent. The market share gap between Big Four and smaller firms have become wider potentially reducing the possibility for the small firms to become significant service providers in this market segment (World Bank, 2004).

Higher audit quality can be easier achieved by the larger audit firm (Francis, 2004), because of their ability to discover and detect the misstatements (Hosseinniak, 2014). But, reaching high audit quality in small size audit firms is also attainable, since because they conform to audit standards (Bauwhede and Willekens, 2004). However, because of the existence of the auditor-related specifications such as professional competence, technical ability, auditor’s liability as well as auditor independence, it is more expected to reach higher audit quality in large audit firms (Hussein and Hanefah, 2013).

Because of the important result of an audit process, the auditor must maintain quality in accordance with the generally accepted auditing standard (GAAS) when accumulating and evaluating the auditing evidence. He/she has to give the audit opinion based on professional judgment. The auditor is encouraged to have accountability on each part of an audit activity. Therefore, the purpose of an audit activity needs sufficient competent evidences so that it can run successfully (Eko, 2012).

Mgbame, Eragbheand Osazuwa (2012) opines that fears about audit quality have increased tremendously because of the financial reporting scandals that have rocked major known corporations such as Enron, WorldCom and others. Many have adduced these happenings to auditors. Petroni and Beasley (1996) argue that there are no systematic differences in the loss of reserve estimation accuracy between auditors with high reputation (Big Eight) and other audit firms(Non-Big Eight). Gul and Krishnan (2002) also claim that audit quality for audit firm with high reputation (Big Five)has declined after 1995 basing their assertion on increases in the percentage of unqualified audit reports and declines in the pricing of discretionary accruals to measure audit quality. Weiner (2012) asserts that most companies in the face of scandals switch to high reputation firms (Big Four) because of their perceptions that high reputation firms produce quality reports since they face more loss of public image when compared with firms having little reputation status.

From the foregoing, it seems the perception that audit firms with reputation status producing quality audit is gradually wavering as a result of more corporate scandals surfacing in the business environment. While some still opine that firms with reputation status known as Big Eight/Six/Four will always produce quality report, others view it contrary. Furthermore, many studies like Becker, DeFond, Jiambalvo, and Subramanyam (1998); Jin,Kanagaretnam and Lobo (2011) have proxy audit quality using audit firm reputation or size based on the understanding that such firms should produce quality report either because of the reputation rationale (reputablefirms have greater motivation to perform a high-quality audit) or because of the insurance rationale (stronger firms interms of resources have a stronger incentive to ensure a high-quality audit.

Statement of The Research Problem

The spate of audit failure in the world, especially in Nigeria, has brought great disappointment to the users of financial report. The bane of the problem has been linked to long term of audit firm tenure which has also been linked with creative accounting. In Nigeria audit setting, the challenge of audit tenure and audit quality reporting has not attracted much empirical study beyond mere anecdotal opinions Mgbame, *et al*., (2012). In view of these studies, auditor tenure has become the focus of much debate. Should a firm replace its auditors on a regular basis, or should the auditor be allowed to build a long term relation with the client? The production of a quality audit report is perceived to foster engendered confidence in financial reports by the users of those reports. Investors in particular tend to place better trust in financial statements that are audited; as the expected independence of the auditor boosts the assurance that important investment decisions can be made on the thrust of those statements. The increased confidence of these set of financial users tend to attract the inflow of capital which has the long-run effect of creating growth and development in the business environment.

Several researchers have proxy audit quality using reputation of auditors on the premises that the loss of reputation, economic rent and increase in litigation cost amongst other things will make auditors ensure that the report they produce is of quality however, the experienced scandals across the globe points otherwise as even some companies audited by the reputable firms have been involved (Weber, Willenborg and Zhang, 2008). Furthermore, Simunic (2003) asserts the notion that audit quality varies across different classes of audit firms has been a heated debate over centuries with divergent opinions surfacing as time elapse. Prior to 2000, the argument was in favor of reputable firms providing quality audit because the audit fees of reputable firms (former) were higher than that of non-reputable firms (latter), litigation rates are lower for the former, the stock market reacts mildly to positive unexpected company earnings that are audited by the latter, companies making IPOs and POs experience less underpricing if audited by a reputable firm... just to mention a few, however, the direction of the argument is changing because of the series of corporate scandals, the mergers of reputable firms from Big Eight to Big Four, rejection of the audit quality ranking of reputable firms versus non-reputable by practitioners and a host of other revelations (Simunic, 2003). It is therefore against the foregoing discussion that we seek to examine the relationship between audit quality and audit firm reputation, we also want to evaluate the impact which audit firm reputation might have on audit quality especially in Nigeria.

However, inefficiencies on the part of management could lead to structured financial statements. These financial statements ordinarily do not show the true state of affairs and financial position of the organization and hence, could jeopardize the decisions of prospective investors. Adverse results on investment would reduce the credibility of the financial statements; which would in turn reduce the level of capital flow, thereby deteriorating the state of the business environment. The onus therefore rests on the auditors to address these issues through efficient and effective execution of the audit assignment, and the resultant production of a quality report. The study therefore investigates the factors that could affect the quality of the audit assignment, and analyzes the existence and degree of relationships between these factors and the achievement of high audit quality in the deposit money banks listed on Nigeria Stock Exchange.

Beattie and Fearnley (2015) report indicate that dissatisfaction with the audit quality is one of the most common motives cited for the choice of auditor. According to (Schwartz and Menon 2015) a company may select a higher quality auditor in order to provide credible information to investors. In Australia, Mcphail and Sands (2014) studied the determinants of the choice criteria used in the auditor selection process, these auditors identified eight criteria from the literature. The result of the study identified nine choice criteria with the technical competence and client orientation being the most important criteria while level of audit fee, effective preparation and communication of audit submission are significantly more important criteria, while the audit fee, effective preparation and communication of audit submission are significantly more important to companies appointing a new auditor. In china, Lin and liu(2009) Studied determinants of firm's auditors' choice in respect of their corporate governance mechanism. Logistic regression model was developed to test the impact of firm's internal corporate governance mechanism on auditors' choice decisions for a period of four years 2001-2004. The result shows that firms with large controlling shareholders are likely to hire high quality auditor. In Dina.S.Fadaly (20018) studied the determinants of auditor choice in emerging market, the result of the logistic regression showed that four out of eight variables were significant, namely audit fees ,reputation with investors, audit firm geographical proximity and long term relationship with current auditor.. This study differs from all the above other works reviewed above in the sense that it studied the effect of socio economic characteristics of the shareholders on the choice auditors of the quoted firms in eastern part of Nigeria.

Objective of the Study

The main objective of this study is to ascertain the determinants of choice of auditors in Nigerian quoted firms. The specific objectives are to:

1. To examine the socio-economic characteristics of the sample respondent in the Nigeria quoted firms
2. To analyze the determinants of choice of auditors in Nigerian quoted firm

2.0 LITERATURE REVIEW

2.1. Conceptual review

Audit quality

Even though research on audit quality has been widely conducted, there is no one exact definition of audit quality (Duff, 2004). Bedard *et al.* (2010) illustrated that even experienced professionals convening to discuss the notion of audit quality have difficulty agreeing on a common definition. The one that is largely cited is the definition of the quality of audit services by DeAngelo in 1981 which stated that the quality of audit services is defined to be the market-assessed joint probability that a given auditor will both (a) discover a breach in the client's accounting system, and (b) report the breach. The probability that a given auditor will discover a breach depends on the auditor's technological capabilities, the audit procedures employed on a given audit, the extent of sampling, et cetera. The conditional probability of reporting a discovered breach is a measure of an auditor's independence from a given client (DeAngelo, 1981).

However, other published definitions of audit quality emphasized another various aspects of audit quality that can be noticed in various studies of audit quality. For example, some studies focused on the impact of audit firm arrangement and processing such as audit contract type, audit tenure, audit fees, and non-audit services on audit quality (Carey and Simnett, 2006; Son, 2005). Meanwhile, other studies explored the company's characteristics such as company size, business complexity, institutional ownership and leverage, as variables that affect audit quality (Kane and Velury, 2004; Mitra, 2007; Wan Abdullah *et al*., 2008). Some others examine the effective components of corporate governance and its relationship with audit quality (Carcello and Neal, 2000; Goodwin and Seow, 2002; Salleh and Stewart,2006, Adeyemi and Fagbemi, 2010).

Audit fee and audit quality

Thornton and Moore (1993) in Elke and Schroé (2010) investigated how audit fees are determined and what their influences are on the auditor choice. In accordance with previous research on what determines the audit fees (Simunic, 1980 and 1984), they focused on three of the four generally suggested audit fee determinants, namely, weakness of internal control, business risk and audit complexity. One of their main findings is that the marginal cost of auditor quality varies inversely with the companies' internal control strength.

Audit firm tenure and audit auality

The question of whether audit firm tenure impacts audit quality has long been one of the major issues concerning auditing regulations. Some believe that lengthy auditor tenure undermines independence and objectivity, while others believe that long tenure increases auditor knowledge and competence.

Audit firm size and audit quality

Dehkordi and Makarem (2011) investigated the influence of audit firm size (Big auditors vs. non-Big auditors) and auditor type (governmental vs. private auditors) on audit quality. A sample of 224 firms was observed from the Tehran Stock Exchange (TSE) companies during the period 2002 to 2007. Discretionary accruals (DAC) were employed as representative of audit quality. A modified, cross-sectional version of the Jones' model was applied to measure DAC. Their outcome showed that the size of non-governmental audit firms does not affect their audit quality, and changes within private audit firms does not lead to changes in the level of discretionary accruals. Their empirical results imply that in some settings such as that of Iran, factors such as auditor type, intense competition, audit committee, and litigation risk are of greater importance than audit firm size.

2.1Auditee Attributes

Client Size

The most consistent result in all previous research has been that auditee's size is significant in providing explanations on the variations in the audit fees: Karim and Moizer, 1996; Simon & Taylor, 2002; Pong and Whittington, 1994; Joshi and Al-Bastaki, 2000; Chung & Narasimhan, 2002; Ho & Ng, 1996; Wilson, 2003; Ezzamel, Gwilliam and Holland, 2002; and Matthews and Peel, 2003. Chung and Narasimhan (2002) in their international study on audit fees found that client size accounted as a major determinant in audit fees charged to organizations. Wilson (2003) using samples of energy firms also replicated the result that firm size is really related to audit fee. In addition, a time-series analysis by Matthews and Peel (2003) using UK companies on the antecedents of audit fees found that corporate size was the major determinant of audit fees 100 years ago. There are various proxies that have been used in the literature as a measure of the auditee size. The two most prominent are total assets (Simunic, 1980 in Francis, 1984; Taylor and Baker, 1981 in Francis, 1984; Francis, 1984; Simon, 1985 in Simon and Francis, 1988; Simon & Francis, 1988; Butterworth and Houghton, 1995; Davis, et al., 1993; Firth, 1997) and sales (Ezzamel, et. al, 2002; Taffler and Ramalinggam,1982 in Matthews & Peel, 2003). There equally studies that use both total assets and sales (Elliot and Korpi, 1978 in Anderson and Zeghal, 1994; Firth, 1985 in Butterworth and Houghton, 1995; Chen, Ezzamel and Gwilliam, 1993 in Chung and Narasimhan, 2002).

Client Risk In most studies, there was also the variable of auditee's risk that plays a major role in the determination of audit fees (Che-Ahmad and Houghton, 1996; O'Sullivan, 2000; Karim &Moizer, 1996; Curry & Peel, 1998; Simon and Taylor, 2002). The profitability/ losses as reported by the client in their financial statements have since been used as proxies for representing the risk associated with the client. Consequently, enterprises that were making accounting losses could be expected to represent a higher risk thereby increasing the probable inability to pay the auditing firm their fees (Karim and Moizer, 1996). Walker and Casterella (2000) using data from over 3,000 companies in the United States, found that auditors are managing their exposure to audit risk based on the auditee's risk or auditee profitability by adjusting audit fees. However, Davis et al. (1993) used opinion type as a proxy for risk as it measured this variable in terms of the loss that will be incurred if an unqualified audit opinion is issued inappropriately. They further argue that this measure more closely reflects auditors' actual perception of risk but are aware that the assessment of risk in this manner is more subjective in nature compared to more quantitative measures.

Client Complexity Another major variable used in explaining the variance between audit fee charges was the client's complexity (Hay, 2010). This was variously measured using the number of subsidiaries (Taylor & Baker, 1981in Francis, 1984; Francis, 1984; Francis & Stokes, 1986 in Francis & Simon, 1987; Palmrose, 1986 in Francis & Simon, 1987; Francis & Simon, 1987; Simon & Francis, 1988; Butterworth & Houghton, 1995; Pong & Whittington, 1994; Davis *et a*l., 1993; Wilson, 2003; Ezzamel et. al., 2002), the ratio of auditee's receivables and/or inventories to the auditee's total assets (Simunic, 1980 in Francis, 1984; Simon, 1995 in Simon & Francis, 1988; Firth, 1985 in Butterworth & Houghton, 1995; Francis & Stokes, 1986 in Francis & Simon, 1987; Simon & Francis, 1988; Simon & Taylor, 2002) and audit fee diversification (Simunic, 1980 in Francis, 1984; Chen*, et al*, 1993 in Chung & Narasimhan, 2002).

2.1.2 Big four vs. Non big four

A meta-analysis by Hay (2010) opined that the BigN (4, 5, 6 or 8 depending on the timing of the study) versus Non-BigN dichotomy yields convincing results in favor of a brand name premium in the majority of studies. Rubin (1988) using a framework similar to Simunic (1980) in Francis (1984) argued that auditor size can be measured by whether a firm is one of the Big Eight auditing firms (now big 4). It was further hypothesized that Big Eight firms are found to be associated with significantly higher audit fees. This relationship was supported by Firth (1997) that measured auditor size using the Big Six whereby it was shown that the Big Six firms have consistently charged a premium over other accounting firms for both small and large size clients. Karim and Moizer (1996) also provided an explanation for this relationship as the Big Six have access to higher quality staff and use higher quality procedures and so are more likely to detect errors and omissions. Moreover, Curry and Peel (1998) also posited in their paper using neural networks in predicting the cross-sectional variation in corporate audit fees that the Big Six do charge a superior (differential) for their services compared to their smaller counterparts. An alternative view was postulated by Klein and Leffler (1981) in Deis and Giroux (1996) that brand name development or reputation is very important for assessing audit quality and consequently, audit fees.

2.1.3 The reasons for a company to hire a high quality auditor

When looking at the choice company managers make concerning engaging an auditor, elaborate research has been performed on which specific auditor they hire. In their selection of an auditor, companies primarily take their need for a certain quality level in these external monitoring services into consideration. Klein and Leffler (1981) provided the following definition for quality: "[…] quality refers to the level of some desirable characteristic contained in the good." (Klein and Leffler, 1981, p. 618). for this paper we use the word quality as it is defined by Klein and Leffler (1981). The quality of audit services is defined to be the market-assessed joint probability that a given auditor will both (a) discover a breach in the client's accounting system, and (b) report the breach." (DeAngelo, 1981, p. 186). In the literature, the main distinction between audit firms used, is the one between high-quality auditors and non-high-quality auditors. Several attempts have been made to determine what qualifies a certain auditor to be a high-quality auditor and how to proxy for this in research. The most cited work that has provided previous researchers with a potential determinant, is the work of DeAngelo (1981). her argument is that many firms have a changing amount of agency costs to deal with, which differ over time and place. This cause many company managers to look at ways to lower these changing agency costs by engaging an auditor who provides adequate services appropriate for the company's needed level of quality. However, when an attempt to measure the quality of an auditor and his provided services, this would become too costly in accordance with the benefits of having adequate external monitoring. The first proxy used in literature for the quality of an audit firm is accordingly, size. Another proxy provided by the literature, as projected by Klein and Leffler (1981), is price. They indicated that price is another measure for quality. Although the research of Klein and Leffler (1981) largely focused on quality in general, their proxy has been used by many other researchers in a bid to investigate the auditor choice. Thornton and Moore (1993) investigated how audit fees are determined and what their influences are on the auditor choice. In accordance with previous research on what determines the audit fees (e.g. Simunic, 1980 and 1984), they have focused on three of the four generally suggested audit fee determinants, namely, weakness of internal control, business risk and audit complexity. One of their main findings is that: "The marginal cost of auditor quality varies inversely with the companies' internal control strength" (Thornton and Moore, 1993, p. 346).

2.1.4 The auditor choice framework

A number of earlier papers and articles looking at the auditor choice and its determinants, a great number of approaches were used to investigate this relation. There are the articles that focused on the variety criteria for an auditor concerning the audit firm itself and there are researchers focusing on the criteria related to the firm that needs to be audited. A third group investigated the impact of investor protection. To conclude, one could say that there are three groups of variables that can explain the auditor choice, the firm variables, the institutional variables and the firm variables.

2.1.5 Ownership variables

As the capital markets in continental Europe are less developed (LaPorta, Lopez-De-Silanes, Schleifer and Vishny, 1997, 1998), most companies are family owned businesses. Combined with the fact that civil law countries also provide a less protective environment to investors, Schleifer and Vishny (1997) and LaPorta et al. (2000) opined that conflicts of interest can arise between the minority investors and the controlling shareholders, replacing the initial agency conflict between managers and owners. In the light of compensating the weaker legal protection they have, due to national legislation, controlling shareholders will try to monitor the managers they appoint more closely themselves. By doing so, they are in fact replacing the legal constraints on managers by their own (El. Ghoul, Guedhami, Lennox and Pittman, 2007). This may give rise to conflict with minority investors because these controlling shareholders have the potential to use the firms resources to protect their own interest while the interest of the minority investors are neglected Recent research highlights the incentives for controlling shareholders to develop effective corporate governance mechanisms to reduce the potential extraction of private benefits of control" (El Ghoul et al., 2007, p. 5). Engaging a high-quality auditor is suggested by research to be such a mechanism because of the greater transparency in financial statements they offer.

2.1.6 Audit firm variables

When a company is looking to start a business relationship with another company, one will examine the features of the potential future partner in order to verify the degree of alignment and whether the relation has constructive potential. The business relation between a certain company and its auditor is not any different. As an audit firm is a regular company, it possesses criteria and characteristics as any other. Before selecting a certain auditor, a company in the need for external Auditor, will weigh all the potential advantages and disadvantages it could receive and experience when entering in a business relationship. When considering the marginal costs of engaging a Big Four auditor, company managers will take the potential increase in price into consideration as prior research suggests that Big Four auditors (e.g. Simunic, 1980; and Francis and Simon, 1987; Gul, 1999; Choi, et al. 2008) sometimes charge higher auditor fees than their peers. Companies having the incentive to smooth their earnings downwards, might also see a disadvantage in hiring a Big Four auditor. Vander Bauwhede, Willekens and Gaeremuynck (2003) found evidence that a Big Four auditor helps to reduce earnings smoothening in companies that have earnings above aim. However, when a company tends to improve its disclosure quality, as a signal to its (minority) shareholders and overall stakeholders, the company managers will be more eager to hire a Big Four auditor. When taking the institutional environment into account, the related research by Francis and Wang (2008) provided evidence that in a strong investor protective environments, Big Four auditors will demand a higher earnings quality of their clients. Additionally, in strong investor protective environments, they also found that the abnormal accruals are smaller for Big Four clients. A third finding in strict legal regimes was that there is a higher likelihood that firms report losses when they are audited by a Big Four company. Contrarily, in weaker legal environments, neither of these relations could be found. Due to the positive perception by investors and other stakeholders of quality, company managers might therefore consider audit quality as a marginal benefit. Thus one can say that price and quality are, next to being the qualifiers of high-quality audit firms third variable is the size of the audit firm

2.2. Theoretical review

Agency Theory

Agency theory (Fama and Jensen, 1983; Andrew, 2013), the leading theory in accounting and audit (Beasley *et al.*, 2009; Cohen *et al.*, 2008; Hermanson *et al.*, 2012; Tricker, 2012,) suggests contractual mechanisms such as corporate governance are put in place to check management to address the separation in ownership and control. Under the agency view, management are viewed as self-interested actors who behave opportunistically, favouring their own interests over those they represent even if these actions are detrimental to owners (Jensen and Meckling, 1976). Thus, two mechanisms are identified to control this behaviour: contractual mechanisms to align management goals with the principal; and information systems introduced to reduce information asymmetry between owners and management which can also restrict opportunistic behaviour through the realization by management that they cannot deceive the monitors (Cohen *et al*., 2008; Eisenhardt, 1989a). The agency perspective considers independence from management and expertise as the primary and central attributes of a monitor (Cohen *et al*., 2008; Cohen *et al.*, 2002; Hermanson *et al*., 2012).

Stewardship Theory

Stewardship theory suggests the motives of audit quality actor are aligned with objectives of the organisation (Trotman, 2013) and the actor has a focus on promoting value and organizational improvement (Beasley *et al*., 2009; Davis *et al*., 1997). Stewardship theory incorporates alternative behavioral principles than agency theory by suggesting behavior does not depart from the organizations interests (Davis *et al*., 1997). The behavioural principles are based on two premises: first, that the steward is naturally honest and trustworthy motivated to do the best for the organization and not for personal gain; and second, actors behave in an entrusting manner to not jeopardize their reputation (Nicholson and Kiel, 2007).

3.0 METHODOLOGY

The data for this study was sourced from both primary and secondary sources. The primary data was taken from a carefully constructed questionnaire. 120 copies of the questionnaire were administered to respondents who were purposively selected shareholders of the quoted companies in south Eastern part of Nigeria. 100 copies of the questionnaire were returned and analyzed. Purposive sampling technique was adopted because it enables the researchers to identify and utilize knowledgeable shareholders in the process of selecting an auditor. The questionnaire was designed to enable respondents to provide demographic information about themselves. Data collected were analyzed using both descriptive statistics and inferential statistics with the aid of STATA software.

3.1Variables and Measurement

3.1.1. Auditors Switching Choice

The dependent variable is the choice of the audit firms. For this study, audit firms are classified into; the 'Big Four' audit firms and non-'Big-Four' audit firms. A dummy variable that takes the value of (1) when a respondent company uses Big Four and zero (0) if not.

3.2. Independent Variables

There are eight \ independent variables for this study. They are listed below:

3.2.1 Technical Accounting Skill: Technical accounting skill is assigned one (1) if respondent is of the opinion that technical accounting skill is a factor in determining external choice of auditor in his/her company and zero (0), if not

3.2.1 Sector-Specific Expertise*:* Sector-specific expertise takes a value of one (1) if respondents is of the the opinion that Sector specific expertise is a factor in determining external choice of auditor in his/her company and zero (0), if not.

3.2.2 International Coverage*:* International coverage is assigned One (1) if respondents is of the opinion that International coverage is a factor in determining external choice of auditor in his/her company and zero (0), if not.

3.2.3 Management Preference for Specific Auditor*:* The variable takes on value of unit (1) if respondent is of the opinion that management preference for specific auditor is a factor in determining external choice of auditor in an his/her company and zero (0), if not.

3.2.4 Long-Term Relationship with Current Auditor: This variable takes on the value of unity (1) if is of the opinion that Long-term relationship with current auditor is a factor in determining external choice of auditor in his/her company and zero (0), if not.

3.2.5 Reputation of Audit Firm with Investors: Reputation of audit firm with investors is assigned One (1) if respondents is of the opinion that reputation of audit firm with investors is a factor in determining external choice of auditor in his/her company and zero (0), if not.

3.2.6 Reputation of Audit Firm with Corporate Broker: The variable is assigned one (1) if respondent sis of the opinion that reputation of audit firm with corporate broker is a factor in determining external choice of auditor in his/her company and zero (0), if not.

3.2.7 Reputation of Audit Firm with other External Advisers: This variable takes on the value of (1) if respondents is of the opinion that reputation of audit firm with other external advisers is a factor in determining external choice of auditor in his/her company and zero (0), if not.

4.0 RESULTS AND DISCUSSION

This section presents and discusses the responses result to the survey. The study administered one hundred and twenty (120) structured questionnaires of which one hundred copies were filled and returned, giving a response rate of 83%. The analysis of this study was based on the questionnaire copies returned. The section is structured as follows; demographic characteristics of the respondents and logistic regression predicting choice of external auditor.

4.1 Demographic Characteristics of the Respondents

Information on the demographic characteristics of the respondents is as shown in the Table 1.

Table 1: Demographic Information of Respondents

	Frequency	Percentage
Sex		
Male	60	60.0
Female	40	40.0
Total	100	100.0
Marital Status		
Single	42	42.0
Married	53	53.0
Divorced	3	3.0
Widowed	2	2.0
Total	100	100.0
Age		
18-25yrs	29	29.0
26-35yrs	47	47.0
Above 35yrs	22	22.0
Total	100	100.0
Average monthly income		
Less than N100,000	51	51.0
N101,000 – 200,000	23	23.0
Above N200,000	26	26.0
Total	100	100.0

Highest educational qualification		
No formal	5	5.0
Primary education	3	3.0
Secondary education	10	10.0
OND/NCE	20	20.0
B.Sc	41	41.0
M.Sc/Ph.D	21	21.0
Total	100	100.0
How long have you been a shareholder		
1-20yrs	65	65.0
21-30yrs	25	25.0
Above 30yrs	10	10.0
Total	100	100.0

Source: Field Survey, (2019).

From the Table 4.1, male respondents were 60% and female respondents were 40%. Majority of the respondents surveyed (53%) were married. None of the respondent is less than 18 years. The distribution of the respondents by average monthly income shows that 58.0% of the respondents have their average income less that ₦100, 000. This means before one can be a shareholder he must be comfortable, that is to say, a poor person cannot be a shareholder (or an investor). Categorization based on the education qualifications shows that the majority (41%) have B.Sc certificates. Only 8% holds below school certificates. This means most of the respondents are educated (92.0%). Majority of the respondents have been shareholders for between one and twenty years.

Table 2: Logistic Regression analyses result of the determinants of choice of auditor in Nigerian quoted firm.

Logistic regression — Number of obs = 100; LR chi2(8) = 18.58; Prob > chi2 = 0.0173; Pseudo R2 = 0.1422

Log likelihood = -56.050072

dac	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
lctr	-2.274299	.8786557	-2.59	0.010	-3.996433	-.5521657
sse	-.8096189	.6124036	-1.32	0.186	-2.009908	.3906701
mp	-.3113587	.5935879	-0.52	0.600	-1.47477	.8520521
ic	1.173728	.6048496	1.94	0.052	-.011755	2.359212
ts	.0191029	.5403089	0.04	0.972	-1.039883	1.078089
ari	-.621373	.4909148	-1.27	0.206	-1.583548	.3408024
aeb	.3191179	.5615308	0.57	0.570	-.7814621	1.419698
afe	.2412475	.5135415	0.47	0.639	-.7652753	1.24777
_cons	2.159304	1.344391	1.61	0.108	-.4756545	4.794262

Source: Author's computation, 2019

From the Table 2, the model for this study is as follows:

$$DAC = 2.159+(-2.274)LCTR + (-0.810)SSE + (-0.311)MP + (1.174)IC + (0.019)TS +(0.621)ARI +(0.319)ARB + 0.241AFE + \varepsilon_t$$

Where:
DAC = Determinants of auditors switching choice.
LCTR = Long-Term Relationship with Current Auditor
SSE = Sector-Specific Expertise
MP = Management Preference for Specific Auditor
IC = International Coverage
TS = Technical Skill
ARI = Reputation of Audit Firm with Investors
ARB = Reputation of Audit Firm with Corporate Broker
AFE = Reputation of Audit Firm with other External Advisers

The Table 2 shows that only long-term relationship with current auditor and international coverage is significant with p-value less than 0.05. The coefficient of determination (R^2) indicates that considering all the variables, it explained just 14.22% of the determinant of choice of auditor in Nigerian quoted firm. This is as a result of none significance of other seven variables with exception of the two indicated above. The model's fit is acceptable. The chi-square value which indicates that overall model fit is significant at 1% level. The evaluation of each of the variables included in the model on the dependent variable showed that long-term relationship with current auditor and international coverage are significant determinants of choice of auditors in Nigerian quoted firm. It is shown in the Table 2 that the auditor with international coverage will be more likely to be considered by companies compare to auditor without international coverage. Also, long term relationship with current auditors was significant at 1% and negatively related to determinants of choice of auditor in Nigerian quoted firms; this implies that long term relationship with current auditors will predict auditor choice .it was also observed that those with high literacy level and long stay with the company have a relationship with the choice of auditors. The higher the literacy level and long stay with the company, the more the preference for the big four companies and high audit quality.

5.0 CONCLUSION AND RECOMMENDATIONS

This study examines the determinants of choice of auditors in Nigerian Quoted Firm. Thus, it provides evidence on the relationships between auditor choice and related variables. The study also detailed on some key determinants considered for choice of external auditors. Some of these determinants are technical accounting skill, sector-specific expertise, international coverage, management preference for a specific auditor, long-term relationship with current auditor and reputation of audit firm with investor among other.

Out of the 15 companies sampled for this study, it was found that 10 companies were audited by a Big Four auditor, and 5 choose a non-Big Four auditor. thus, Big-four audit firms are viewed as quality service providers compare to non-Big-four audit firms. The study concluded that emphasis should be on the ability of audit firms to provide quality audit services.

The analysis result showed that the two most important factors influencing the company's choice of auditor are international coverage and long-term relationship with current auditor. The study recommends that quoted firm should consider the quality of the auditor before selection. In light of the above, the study recommends that

i. Quoted firm in Nigeria should appraise the quality of the auditor before selection.
ii. The non big four audit firms should stress on quality in order to increase their audit market share

iii. Also mergers amongst the non-Big-Four audit firms should be considered in order to bridge the gap between the Big Four and non-Big-Four audit firms.

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