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DETERMINANTS OF AUDTITOR SWITCHING BEHAVIOUR IN NIGERIA

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ABSTRACT

This study examined the determinants of auditor switching behaviour in Nigeria. The study examined the effect of firm profitability (financial condition of client), audit tenure, audit fee, client firm size and audit delay on auditor switching. The population for the study consisted of all the one-hundred and fifteen (115) non-financial quoted companies in the Nigerian Stock Exchange (NSE). The companies for the population had the responsibility to publish their financial statements for seven consecutive years for the period of 2012- 2018. Secondary data used for the study was collected from the sampled quoted non-financial companies in the Nigerian Stock Exchange for the period of 2012 to 2018. Binary regression technique was used to test the formulated hypotheses. The Binary regression results firm profitability exerts a negative and insignificant effect on auditor's switching, audit tenure exerts a negative effect and significant effect on auditor's switching, audit fee exerts a positive and insignificant effect on auditor's switching, client firm size exerts a positive and insignificant effect on auditor's switching and audit delay exerts a positive and insignificant effect on auditor's switching across the binary models. The study recommended that management and investors should consider the level of firm profitability when looking at auditor's switching with the aim to improve audit quality. The study therefore suggested that further empirical studies should be conducted in the area of auditor switching by extending the scope to all sectors of the Nigeria economy.

Keywords: Audit Delay, Audit Fee, Audit Tenure, Auditor's Switching, Client Firm Size and Firm Profitability.

INTRODUCTION

Auditor switching behaviour has been a major issue in research to be addressed in order to improve audit quality for decades (Choi, Lim & Mali, 2017). Auditor switching occurs where the relationship that exist between auditor and client is no longer existing (Kasih & Puspitasari, 2017). Randal, Mark, Alvin and Amir (2009), stated that auditor's switching is management decision to change the services of an auditor for better audit service quality or for reducing cost". Therefore, auditor's switching is seen as the change of auditor by the client in carrying audit assignment. "The contractual arrangement between the auditor and auditee is based on audit engagement which proceeds with a risk assessment and formulation of an audit plan delineating the scope and objectives of the audit, (Byrnes, Al-Awadhi, Gullvist, Brown-Liburd, Teeter, Warren, Jr., & Vasarhelyi, 2012). Enofe, Mgbame and Abadua (2013), stated that audit auditor switching is necessary to overcome the problem of familiarity of the audit firm with the management of the organization and also the doctrine of professionalism and independence of the auditor can be easily impair. Meanwhile, the presence of auditor switching creates room for the company to engage fresh hands in examining the financial statement of the client company.

Audit is playing an important role in developing and enhancing the global economy and business firms (Husam, Rana & Abdulhadi, 2013). Auditors based their opinion on the true and fair view of the financial statements. Therefore, auditors have to improve on their skills so as to increase the probability to rely more on the auditor's report and audited financial statements which are more relevant, unbiased and accurate for the decision makers. Meanwhile, there are some argument from scholars and researchers that the quality of audit increases when a newly appointed auditor with fresh and skeptical minds evaluates the financial statements (Choi, Lim & Mali, 2017; Imegi & Oladutire, 2018). Furthermore, assigning the same personnel or audit firm on the same audit client over a long period of time is viewed to impair audit independence because of self-interest and familiarity threat (Eilifsen, Messsier, Glover and Prawit, 2010). Again, this auditor switching deals with the, audit fee audit tenure, audit delay issue on the audit quality. Audit tenure is seen as the agreed period of engagement between the auditor and client (Hartadi, 2009). In relation to auditor switching, the issue of audit fee is also an issue of concerns. Audit fee is the fee paid to the auditors which reflect the cost of the effort or work done by the auditor (Choi, 2009). Thus, when audit firm is been rotated, the incoming or new auditors are coming with their own charge and this charge in form of fees are going to indirectly affect the quality of the audit. However, audit delay is the difference between fiscal year-end of the company and the audit report date which is normally reported in days. Meanwhile, financial condition of the firm is an issue considered in auditor's switching. Financial condition of the firm is based on the profitability level of the firm which may influence the auditor's switching. Onwuchekwa, Erah and Izedonmi (2012) argued that when the auditors have to work to the wishes of the directors in order to retain their services in the company even if it means compromising their independence. Corporate organizations change the service of an audit firm as a result of poor audit quality. Okaro (2005) affirmed that professional accountants and corporate management ought to be actively involved in the business of preparing reliable and dependable financial statements through disclosing all material facts and figures that will make financial statements credible. More importantly, auditor switching guarantees the company freshness and pinpointing internal control problems that may have been over looked by previous auditors may be look upon by engaging new audit firm. Prior studies conducted in developing and developed countries on the area of auditor switching were the work of Hussein (2015); Mazri, Smith and Ismail (2012), Suyono, Feng and Riswan (2013); Nyakuwanika (2014); Kasih and Puspitasari (2017). To the best of my knowledge, little or no studies have undertaken in Nigeria on the area of auditor's switching (knowledge gap). Therefore, the study intended to fill the gap created in Nigeria related literature by examining the determinants of auditor switching in Nigeria listed companies. Despite robust audit fees paid to auditors, there is still high level of auditor switching among quoted companies in Nigeria. The study also filled the gap in knowledge by finding whether financial condition of the firm (firm profitability), audit fees, client firm size and audit delay, are prime factors of auditor's switching. This study also serves as a comprehensive reference for developing countries and added to the body of knowledge on the significant factors of auditor switching.

Research Objectives

The broad objective of the study is to examine the determinants of auditor's switching behaviour in Nigeria listed company. Therefore, the specific objective is to:

(i) examine the effect of firm profitability on auditor switching in Nigeria.

(ii) investigate the effect of audit tenure on auditor switching in Nigeria.

(iii) determine the effect of audit fees on auditor switching in Nigeria.

(iv) assess the effect of client firm size on auditor switching in Nigeria.

(v) ascertain the effect of audit delay on auditor switching in Nigeria.

Research Hypotheses

Based on the research objectives and questions, the following null hypotheses were formulated to be tested:

H_{O1}: Firm profitability has no significant effect on auditor switching in Nigeria.

H_{O2}: Audit tenure has no significant effect on auditor switching in Nigeria.

H_{O3}: Audit fee has no significant effect on auditor switching in Nigeria.

H_{O4}: Client firm size has no significant effect on auditor switching in Nigeria.

H_{O5}: Audit delay has no significant effect on auditor switching in Nigeria.

REVIEW OF RELATED LITERATURE

Concept of Auditor Switching Behaviour

Auditor switching is define as the resignation and dismissal of audit firm from carrying audit assignment from the client firm (Turner, Williams & Weirich, 2005). Also, auditor switching is the movement of auditor from one client firm to another either by resignation or dismissal by the recommendation of the audit committees. The rate of auditor's switching is mainly due to lack of audit independence. The independence of the auditor is very keen in the determination of the amount of money paid in the audit engagement. However, the mental attitude and physical appearance of the auditor can be uninfluenced by others in judgment and decision (Louwers, Ramsay, Sinason & Strawser (2007). Mazri Smith and Ismail (2012: 222), "argued that auditor switching has been negatively impacted on the client firm as well as the audit firm". Meanwhile, auditors' switching make auditor to lose their clients while the clients may incur more costs based on the recruitment of auditor. Binti, Zaki and Bambang (2016:539), "stated that auditors who are considered to have low performance by his supervisor witness a high level of audit firm turnover due to auditor's switching behaviour". Akhor, Akrawah and Okunrobo (2018) are of the view that auditors based their opinion on the true and fair view of the financial statements. Auditor switching is normally caused by the dissatisfaction of audit opinion by the management of a company. Also auditor switching may affect the market share price of the company receiving the audit opinion and decrease management compensation (Chow & Rice, 1982). Teck-Heang and Ali (2008:1), "added that auditors are expected not only to enhance the credibility of the financial statement, but also to provide value-added services". In other words, "given the behaviour of the auditor many stakeholders expect that auditors guarantee that audited financial statements were completely accurate and that the auditor has performed one hundred percent check for auditees whose financial statements received an unqualified audit report" (Asher, 2011:84). Auditor switching can be upward switching, that is moving from non-big four auditor to big four auditor and downward switching which means moving from non-big four auditor to big four auditor) (Lin & Liu, 2009; Cassell, Giroux, Myers & Omer, 2012).

Mandatory audit firm switching is viewed by the Sarbanes - Oxley (SOX) Act 2012 as the imposition of a limit on the period of years during which an accounting firm may be the auditor of record (Imegi & Oladutire, 2018). Mandatory audit firm rotation imposes periodical breaks to audit engagements and is intended to avoid excessively long relationships between the auditor and the client. In the view of Cameran, Negri and Pettinicchio (2015), the European Union (E.U) has finally come out with mandatory rotation for audit firm in addition to the already existing audit partner rotation rules. Qawqzeh, Endut, Rashid, Johari, Hamid and Rasit (2018) were of the view that mandatory audit firm rotation reduces audit quality and its will lead to additional costs for switching audit firms. Onwuchekwa, Erah and Izedonmi (2012:70), "added that audit firm is mandated to switch after a number of years irrespective of the objectivity, independence, efficiency and quality of the auditor, the willingness of the shareholders and the management to keep the auditor". Based on this study, auditor switching is seen as the movement of auditor from one client company to another either by the process of resignation or remover at the Annual General Meeting (AGM) by shareholders. Therefore, downward switching and upward switching was employed for the measurement of auditor switching.

Firm Profitability (Financial Condition of the Client)

Firm profitability is the ability of corporate organisations to generate enough revenue in excess of operating expenses (Onyeka, Nnado & Iroegbu, 2018). Armstrong (2017) defined firm profitability as how effectively and efficiently, managers utilize resources to achieve set objectives which managers are responsible for in discharge of their duties. Oyeranti (2012) argued that firm profitability plays a vital role in the development of economy in every emerging country. In a business organization, firm productivity is a key objective for the top management. Abdullahi (2015) posited that firm profitability is based on accounting profits terms or economic profits terms. Odusanya, Yinusa and Ilo (2018:43), "asserted that maximization of firm profitability is the optimum goal for a company to remain in business and to withstand competition from firms operating in similar industry". Margaretha and Supartika (2016) defined firm profitability as firm's ability and capacity to generate earnings at a rate of sales, level of assets and stock of capital in a specific period of time". According to Kharatyan (2016:1), "firm profitability can be measured by net profit margin which is the percentage of earnings left over after deducting all operating expenses, taxes, interest and preferred stock from the firm total revenue". However, firm profitability is a good measure of the performance of a firm and it is the basis of financial reporting quality void of earnings management" (Margaretha & Supartika, 2016). Ahmed (2003) asserted that firm profitability is the analysis of either good news or bad new by the companies at the end of the financial year. The good news is the case of the profit earned, the company promptly presents their annual financial report to stakeholders; while in the event of a bad news (loss), the incentives to delay the financial report becomes higher because companies are often reluctant to break bad news due to the implicational discomfort of the unfavourable news to stakeholders (Askari & Moradpour, 2016).

Audit Tenure

Audit firm's tenure is the length of time it has been filling the audit needs of a given client, has been mentioned as having an influence on the risk of losing an auditor's independence (Adeyemi & Okpala, 2011). A long association between a company and an accounting firm may lead to such close identification of the accounting firm with the interests of its client's management that truly independent action by the accounting firm becomes difficult pointed out that complacency, lack of innovation, less rigorous audit procedures and a learned confidence in the client may arise after a long association. Qawqzeh, Endut, Rashid, Johari, Hamid and Rasit (2018:1318), "defined audit tenure as the number of years an audit firm carried out audits assignment in a client or the number of years a company employs the same auditor". Auditor's tenure can be based on short term audit assignment and long term audit assignment. Meanwhile, the presence of longer auditor's tenure might impair the independence of the auditor and professionalism of the auditing profession. In the view of Feleke (2017), a period of long audit tenure may cause and increase in the knowledge about the client's internal operations and reflect negatively on the auditor's independence in relation to higher audit quality. Moreover, shorter audit tenure provides the audit firm less knowledge about the client internal control mechanism which may lead to low level of audit quality. Rennie Kopp and Lemon (2014:137), posited that audit client relationship based on relationship outcome that may greatly impact on auditor-client agreement or disagreement. However, the disagreement may strengthen or weakened the auditor-client relationship on the area of auditor's judgement. Pierre and Anderson (1984:242), "viewed audit tenure as short term basis when the same auditor has audited the financial statements of a company for two or three years, long audit tenure is when the same auditor has audited the financial statements of a company for nine or more years and medium audit tenure is when the same auditor has audited the financial statements for four to eight years".

Audit Fees

The audit fees defined as the sums payable to the auditor, for carrying out audit services offered to the auditing company (Akrawah & Akhor, 2016). Ohidoa and Okun (2018:686), "added that audit fee is the amounts of fees received by an auditor for carrying out an audit assignment on the accounts of the client firm". The determination of audit fee has become very critical after the corporate and audit failure experienced in Enron and Cadbury Plc in Nigeria (Abubakar, 2016). Soltani (2007) defined audit fee as the cost associated with companies that perceived to experience weak internal control process. The audit fees is the sums payable/paid to the auditor, for carrying out audit services offered to the auditing company (client). The company may change services of the audit firm for the purpose of reducing audit fee competition (Oladipupo & Emina, 2016). The auditor switching provides opportunities for new auditor to offer services at a discount to win a new client. Gul, Basioudis and Ng (2011) claimed that the amount of paid to the auditor affects the auditor independence of the auditors rather than NAS fees. Audit fees are payments made to the auditor during the course of the carrying out the audit function and non-audit fee is the payments for other non-audit services carried out by the auditor which may not be part of the audit engagement negotiation. However, "the presence of audit committees may be primarily interested in negotiating a lower audit fee for their clients instead of going for higher audit quality that attract a higher audit fee," (Asthana, Khurana & Raman, 2019:403). They noted that fee competition is a useful mechanism for enhancing the quality of the audit report. Based on this study, audit pricing and existence of non-audit service (NAS) might have a signaling effect on auditor switching.

Client Firm Size

Firm size has been explored by extant literatures as total assets, revenue, scale of operations and number of employees etc. More, importantly, larger firms may have enough resources at their disposal to make huge commitment to different kinds of investment opportunities without financial wavering. Savitri (2019) is of the view that client firm size is of the condition for management take on auditors switching. Therefore, large audit firms are more likely to issue a more accurate opinion and for their audit clients to experience fewer restatements of financial statements and be subject to fewer regulatory sanctions. Ali, Noor, Khurship and Mahmood (2015:47), "argued that the firms that are large in size have more funds to utilize the best technology and expertise to generate in time financial information to public". Therefore, the large sized firms manage their earning less as compared to small sized firms by keeping in view its reputation and cost in the existence of financial analysts.

Audit Delay

Scholars and researchers of accounting has stressed that audit delay is called audit report lag or time lag. Nehme, Assaker and Khalife (2015) defined audit delay as the difference between company's fiscal year-end and the audit report date and reported in days. The timely disclosure and transparency in the financial statements are keen to quality financial reporting (Enofe, Aronnwam & Abadua, 2013). In the view of Robbitasari and Wiratmaja (2013), audit delay in releasing the audited financial statement of quoted company is one of the primary reasons why company change their audit firm in order to witness timely financial report to the user of the accounting information. Timely corporate financial reporting is an important qualitative attribute and a necessary component of financial accounting (Dezoort & Salterio, 2001). However, "the discovery of material misstatements within financial statements subsequent to their issuance can impair the reputation of the company that issued those financial statements and the firm that performed the audit" (Chaney & Philipich, 2002:1221). Bos and Strating (2014:430), "asserted that the disclosure of critical audit matters in auditor's report has the likelihood of influencing the division of roles between the auditor, the management board and the supervisory board members and the reporting of management and audit committees in the management report". The audit report is the end product of every audit assignment that the auditor issues to the members of a client company expressing his opinion on the truth and fairness view regarding an enterprise's financial statements. The timeliness of financial reporting is the availability of information needed by decision makers for useful decision making before it loses its capacity to influence decisions. Recognizing the importance of timely release of financial information, regulatory agencies and laws in Nigeria have set statutory maximum time limits within which listed companies are required to issue audited financial statements to stakeholders (Iyoha, 2012).

Review of Empirical Studies

The empirical framework was carried out in accordance to the objectives and hypotheses of the study under investigation and this discuss below: Elewa and El-Haddad (2019) studied the effect of audit quality on firm profitability. The study is carried out in Egypt. The aim of the study is to investigate the relationship between audit firm rotation as a proxied for audit independence, auditor experience proxied by Big 4 and firm profitability. The population of the study consists of thirty (30) quoted non-financial firms in Egyptian Stock Exchange for the period of 2010 to 2014. The period is based on firms that comply with International Financial Reporting Standards (IFRS). The data is analysed using panel analytical tool. The results of the random effect model reveal that audit firm rotation and auditor experience had an insignificant relationship with firm profitability measured by ROA and ROE. Sayyar, Basiruddin, Abdul Rasid and Elhabib (2015) conducted a study on the impact of audit quality on firm profitability. The study is carried out in Malaysia. The objective of the study is to examine the impact of firm profitability on audit quality as a proxy for audit fees and audit firm rotation. The population of the study is made up of companies listed on Bursa Malaysia for the period covering 2003 to 2012. The data was analyzed using descriptive statistics, correlation analysis and multivariate regression technique. The regression results show that firm profitability exerts an insignificant relationship with audit firm rotation. It was recommended that management should note that switching of audit firm is not important factor affecting firm performance and profitability. Suyono, Feng and Riswan (2013:103), "examined the determinants of auditor switching in Indonesia". The objective of the study was to examine the effect of financial condition of the client, audit fee, competition intensity among audit firms, audit tenure and size of audit firm on auditor switching. "Primary sources of data were employed by distribution of 136 questionnaires to the Chairmen of manufacturing companies listed in Indonesian Stock Exchange for the periods of February to July 2012". It would be revealed from the results that financial condition of the client, competition intensity among audit firms, and audit tenure had a significant positive effect on auditor switching while audit fee and the size of audit firm had an insignificant effect on auditor switching. Qawqzeh, Endut, Rashid, Johari, Hamid and Rasit (2018:1314), "examined the relationship between auditor tenure, audit firm rotation and audit quality". The study used longitudinal research design in the collection of secondary data for the analysis. It would be revealed from the regression results that mandatory audit firm rotation reduces audit quality. The result also revealed that the long time between the auditor and his client negatively impacted on audit the independence, audit quality and auditor switching. The study therefore recommended that management should carefully evaluate long auditor tenure as it impaired the level of audit quality and independence. This therefore implies that mandatory audit firm rotation brings about additional costs to client firm.

Budisantoso, Rahmawati Bandi and Probohudono (2017:530), "examined the moderating effect of audit opinion accuracy on the relationship between corporate governance and downward auditor switching in five countries of Association of Southeast Asian Nations region". The sample population was made up of manufacturing companies listed in stock exchange of Indonesia, Malaysia, Singapore, Thailand and Philippine. Secondary data was sourced from the audited annual financial report of the sampled population and Logistic regression technique for the data analysis. "It would be revealed from the logistic regression results that audit committee, audit independent and financial deepening had a negative effect on downward auditor switching and thereby leading to high level of audit tenure". The suggested that monitoring role of audit committee has the tendency of increasing audit quality and also prevent high auditor switching. Khasharmeh (2015:73), "investigated the determinants for auditor switch among listed companies in Bahrain Bourse. The adopted a primary source of data where Cronbach's alpha was used to test the reliability level of the construct items and T-test and multiple logistic regression techniques were used in the analysis. The t-test results showed that there are significant mean differences between auditor switching financial conditions of the client, audit fees, change in management and "qualified audit opinion. Also, the multiple logistic regression analysis revealed that financial condition of client, size of public audit firm and change in management have negative relationships with auditor switch while audit fees, competition among PAF and qualified audit had positive relationships with auditor switching. The study recommended that a comparative study of auditor switching for different emerging capital markets should be conducted. Asthana, Khurana and Raman (2019:403), "investigated the competing views on the relation between fee competition among Big 4 auditors and audit quality in US local audit markets". They found out from the empirical findings that audit fee competition has a positive relation with the incumbent auditor's switching risk. "The study suggested that fee competition is a useful mechanism for enhancing the quality of the audit report. Savitri (2019:53), "carried out a study on auditor switching behaviour in LQ45 companies in Indonesia". The objective of the study was to investigate the effect of audit opinions, the size of public accounting firms and changes in management auditor switching. The study made use of secondary data where 33 companies were sampled for the period of 2014 to 2016 and adopted logistic regression in the analysis of data. The logistic regression results showed that but the size of the public accounting firm had a significant effect on auditors switching while audit opinions and management changes had no significant effect on auditor switching. This therefore means that management of the companies decided to implement of audit switching for quality financial reporting. The studies suggested public companies with a larger number of samples should be incorporated and add variables such as audit fees, client financial conditions, and the level of competition in further empirical studies.

In Nigeria, Akinpelu, Omojola, Ogunseye and Bada (2013:74), "studied the pricing of audit services in Nigerian commercial banks". They adopted a cross-sectional research design for the data analysis for the year 2009. "The empirical result from the study showed that a positive and significant relationship exists between auditor size, current saving deposits account ratio and the number of consolidated subsidiaries and an insignificant relationship with audit fee". Kasih and Puspitasari (2017:589), "studied the effect of audit delay, client size and audit committee changes on auditor switching in all companies listed on Indonesia Stock Exchange for the period of 2012 to 2015". The sample size of 156 listed companies on Indonesia Stock Exchange was selected with total observation 624 and logistic regression technique for the analysis of data. The regression results revealed that client size has a negative and significant effect on auditor switching while audit delay and audit committee changes has a positive and insignificant effect on auditor switching. The study recommended that public accounting firm and auditors should maintain a reasonable level of independency in order to increase the quality of audit and timeliness of financial report. Enofe, Mgbame and Abadua (2013:13), "determined the relationship between audit firm rotation and audit report lag in Nigeria quoted company". The study adopted a cross-sectional research design where secondary data was collected from fifty (50) randomly selected quoted companies on the floor of the Nigerian Stock Exchange (NSE) for the year 2011. The Ordinary Least Square technique (OLS) was used in the analysis of data with the aid of Eviews 7.0 econometric software. The regression results showed that audit fees, financial year-end and audit firm size had a positive relationship with audit report lag. The result also showed that audit firm rotation and company size had a negative and insignificant relationship with audit report lag. The study recommended for further empirical study should be carried out on the influence of ownership structure and government policies on audit report lag. Pawitri and Yadnyana (2015:214), "studied the effect of audit delay on auditor switching in Indonesia". The study made use of secondary data sourced from quoted companies on Indonesia Stock Exchange and employ ordinary least regression technique for the data analysis. The results showed that audit delay has significant effect to auditor switching. This implies that presence of audit delay witness in the audited financial report make company to the change the services of audit firm. The study recommended that the presence of audit delay could influence stock price and also public and investor's view.

Review of Related Theory

The study was anchored on agency theory. However, some theories were discussed below.

The Agency Theory

The agency theory was propounded by Jensen and Meckley (1976). The agency cost faced by shareholders is reflected in the fees charged by audit firms to carry out an audit. In the market for professional services, high quality services are normally associated with higher wages. "The main characteristics that influence audit fees is the size of the auditee company, the complexity and audit risk detected," (Ashbaugh, LaFond, & Mayhew 2003:611). Agency theory posits that agents have more information than principals and that this information asymmetry adversely affects the principals' ability to monitor whether or not their interests are being properly served by the agents (Casterella, Jensen & Knechel, 2007). It is built on the premises that there is an agency relationship wherein the principal delegates work to the agent. As a result, there evolves risk sharing and conflict of interest between the two parties. It is the belief that the agent will be driven by self-interest rather than the desire to maximize the profits for the principal. The theory describes the conflicts that arise as a result of the separation of ownership and control. There is considerable information asymmetry between the agent and the principal. "Auditors serve to reduce agency costs by reducing this information asymmetry and consequently contractual conflict between business owners and their managers," (Ng, 1978:770). The agency is of great relevance to auditor switching because it is the rationale for enhancing higher audit quality. The switching of auditor is very useful to stakeholders and investors with keen interest to agency-related incentives for attaining quality financial reporting and corporate performance information.

Signalling Theory

The signalling theory acts a signal to management teams in relation to auditor switching for higher quality reporting. The, Ong and Ng (2016:45), "argued that the signaling theory provides better signal of promising expectations from the emerging market information". However, there is good indication for shareholders' interests which have to be properly monitored. The theory also creates a platform for better audit reporting useful to improve performance of the company. Sun, Salama, and Hussainey (2010:679), "argued that the signal theory used to reduce the level of information asymmetry in the capital market". Therefore, "the adoption of International Financial Reporting Standard (IFRS) would help to enhance transparency and timeliness of audited financial report to users of accounting information" (Moon, 2008:1102). Meanwhile, the application of IFRS is a good signal to the stakeholders as information disclosed under international standards is of high quality and enhance the disclosure of critical audit matters. The absence of asymmetry information might help cushion the effect of auditor's switching.

METHODOLOGY

Research Design

The study adopted the longitudinal research design. The research design enabled the researcher to examine the determinants of auditor switching in Nigeria listed companies on the floor of the Stock Exchange. The population for the study consisted of all the one-hundred and seventy (170) quoted companies in the Nigerian Stock Exchange (NSE). The companies for the population have the responsibility to publish their financial statements for seven consecutive years for the period 2012- 2018. The random sampling technique was adopted and our sampling technique is adjusted to ensure fair representative from each company of the sector in the sample size. In considering sample size, Saunders and Thornhill (2003) suggested that a minimum number of thirty (30) for statistical observations provided a useful rule of thumb. Therefore, the sample size was based on the one-hundred and seventy (170) quoted companies as at 31 December, 2018 in Nigerian Stock Exchange (NSE, 2018 Fact Sheet).

Sample Selection of Quoted Companies

Sectors	*Service Companies/ Mergers*	*Non-Service Companies*
Agric		5
ICT	7	
Services	25	
Conglomerates	6	
Constructions/Real Estate		9
Healthcare		10
Industrial Goods		14
Financial Services	57	
Natural Resources		4
Oil and Gas		12
Consumer Goods		21
TOTAL	95	75

Source: Author's Compilation (2020)

Companies from ICT, conglomerates, services and financial services were excluded from the sample population. The justification for excluding these companies are based on the fact that these companies are service rendering companies as well as conglomerate companies. Therefore, we use the statistical formulae of Ewododhe (2011) to arrive at the sampled size of the remaining total population of 75 quoted companies. This was mathematically expressed as: $n = 1/3N$; $1/3 \times 75 = 25$.

Model Specification and Measurement of Variables

A binary regression econometric model is specified in equation in this study. By definition, binary regression econometrics model is one that seeks to explain variation in the values of the dependent variable on the basis of changes in the independent variables. The model below is adapted from McFadden Logistic Regression Model (1974) as measured in recent prior studies (Francis & Wang, 2005; Krishnan, Sami & Zhang, 2005). The logistic regression was functionally represented below:

$$AUDSW = F\ (FPT, AUDT, AUDF, CFS, AUDD) \quad (1)$$

The binary regressions with error term (e_t) is expressed in the econometric equation below;

$$AUDSW = \beta_0 + \beta_1\ FPT + \beta_2 AUDT + \beta_3 AUDF + \beta_4 CFS + \beta_5 AUDD + e_t \quad (2)$$

Where;

Measurement of Variables

AUDSW =Audit switching was measured by a dummy variable: "1" if auditor has been switched and "0", if auditors have not been switched (Chadegani, Mohamed & Jari, 2011; Nazri, Smith, & Ismail, 2012); FPT= Firm profitability. Firm profitability was measured by profit after tax; AUDT = Audit Tenure. Audit tenure was measured by a dummy. "1" if audit firm audit the company for the sampled period of 7 years otherwise "0"; AUDF = Audit Fee. Audit fee was measured by the amount paid to the audit firm for carrying out their audit engagement (De Fond, 1992).; CFS = Client Firm Size. Client firm size was measured by natural logarithms of total asset. AUDD = Audit Delay. Audit delay was measured by the company's year-end (eg December 31st until the date of auditor sign the audited financial report (measured with number of days) (Nehme, Assaker & Khalife, 2015; Pawitri & Yadnyana, 2015).

Method of Data Analysis

The econometric techniques adopted in this study were Logit and Probit regression techniques. The use of Logit and Probit regression methodology in this study is based on the fact that the dependent variable is a dummy. The regression analysis was evaluated using individual statistical significance test (Z-test) and overall statistical significance test (LR-test). The goodness of fit of the model was tested using the coefficient of determination (McFadden R-Squared). Descriptive statistics and correlation analysis is also conducted. The analyses in this study were conducted using E-views 9.0 econometric software.

DATA PRESENTATION AND DISCUSSION OF REULTS

The descriptive statistics showed the description of the mean, standard deviation and normality test. The below was the descriptive statistics of the variables for the period of 2012 to 2018.

Table 1: Descriptive Statistics

Parameters	*Mean*	*Standard Deviation*	*Jarque-Bera*	*Probability*	*Obs*
AUDSW	0.10	0.31	306.02	0.00	166
FPT	5108673	10641499	580.58	0.00	166
AUDT	0.39	0.49	27.87	0.00	166
AUDF	38175.40	48327.29	743.06	0.00	166
CFS	7.47	0.69	6.37	0.04	166
AUDD	93.52	50.14	2474.29	0.00	166

Source: Author's Computation (2020)

From the table above, it is observed that auditor's switching (AUDSW) has a mean of 10% with a corresponding standard deviation of 31%. This indicates that most companies prefer to retain auditors as against switching. This might be as a result of the professional cost associated with a switch in audit firms. Furthermore, firm profitability (FPT) has a mean value of 5108673 million naira and standard deviation of 10641499. It implies that the level of profitability of firm determines the rate of auditors' switching. It was also observed that audit tenure (AUDT) has a mean of 39% and standard deviation of 49%. This therefore means that most firms prefer to hold on to their auditors for quality audit reporting. Audit fee (AUDF) has an average value of 38175.40 million naira and a standard deviation of 48327.29. This indicates that the amount of money paid to the auditor might influence the rate of auditors' switching. It is observed that client firm size (CFS) measured by the logarithms of total asset has a mean value of 7.47 and standard deviation of 0.69. This means that the size of the client firm might determine the level of auditors' switching. It is also observed that audit delay (AUDD) has mean of 93.52 days and standard deviation of 50.14. This therefore means that most of the sampled firms experience an audit delay of 93 days (i.e 3 months) on the average. Finally, based on the probability of the Jarque Bera statistics, all the variables were normally distributed with a probability value which is less than 0.05.

Correlation Analysis

The correlation analysis is used to measures the degree of correlation relationship between the dependent variable and independent variables. The correlation result of was presented in table 2 below.

Table 2: Correlation Analysis

Variable	*AUDSW*	*FPT*	*AUDT*	*AUDF*	*CFS*	*AUDD*
AUDSW	1					
FPT	-0.0041	1				
AUDT	-0.2437	-0.2773	1			
AUDF	0.1367	0.2099	-0.2741	1		
CFS	0.1102	0.4691	-0.3648	0.6568	1	
AUDD	0.1602	-0.1818	-0.1490	0.2024	-0.0673	1

Source: Author's Computation (2020)

The above table revealed that firm profitability (FPT) is negatively and weakly associated with auditor's switching (AUDSW= -0.0041). This implies that the low level of firm profitability might lead to low level of auditor's switching. Also, that audit tenure (AUDT) is negatively and moderately associated with auditor's switching (AUDSW= -0.2437). This implies that the effect of audit tenure might lead to low level of auditor's switching. Audit fee (AUDF) is positively and moderately associated with auditor's switching (AUDSW= 0.1367). This indicates that changes in audit fee paid to audit firm might lead to frequency of auditor's switching. Also, client firm size (CFS) is positively and moderately associated with auditor's switching (AUDSW= 0.1102). This implies that a change in client firm size might lead to high level of auditor's switching. Audit delay (AUDD) is positively and moderately associated with auditor's switching (AUDSW= 0.1602). This indicates that the presence of audit delay might lead to auditor's switching. To check for multicolinearity problem, a variance inflation factor is conducted and the aggregated mean centered VIF value of 1.632 which did not exceed 10 reveals the absence of multicolinearity problem in our model as stated by Field (2009). This therefore reveals the absence of multicolinearity among the independent variables. Multicollinearity between explanatory variables may result to wrong signs or implausible magnitudes, in the estimated model coefficients, and the bias of the standard errors of the coefficients. The result is presented in Table 3 below;

Table 3: Variance Inflation Factor Result

Variable	*Coefficeint Variance*	*Centered VIF*
AUDLGT	6.76	1.37
AUDT	0.002	1.22
AUDF	4.76	1.99
AUDFS	0.002	2.39
AUDD	2.65	1.19

Mean Aggregate VIF = 1.632
Source: Author computation (2020)

Regression Results

In order to examine the determinants of auditor's switching, we employed binary logit and binary probit regression techniques to examine the relationship between the dependent variable and independent variables and to test the formulated hypotheses. The regression results obtained are presented in table 4 below:

Table 4: Binary Regression Results

	Expected Sign	*Logit*	*Probit*
C		-4.02	-2.17
		(-0.84)	(-0.85)
		[0.40]	[0.39]
FPT	-	-2.01	-1.03
		(-0.77)	(-0.73)
		[0.43]	[0.45]
AUDT	-	-2.45	-1.14
		(-2.45)	(-2.61)
		[0.02]**	[0.00]*
AUDF	-	3.57	2.52
		(0.5)	(0.06)
		[0.95]	[0.94]
CFS	- +	0.27	0.13
		(0.42)	(0.39)
		[0.67]	[0.69]
AUDD	-	0.004	0.002
		(1.07)	(1.03)
		[0.28]	[0.30]
McFadden R^2		0.130854	0.129696
LR Statistic		14.91103	14.77913
Prob (LR Statistic)		0.010749	0.011349

Note: (1) Parentheses ( ) are z-statistic while bracket [ ] are p-values
(2) * 1 level of significance & ** 5 level of significance.

Decision Rule: Hypotheses is tested at 5% (0.05) at level of significance. The null hypothesis ($H_{O)}$ was accepted, if the probability value (P-value) is greater than 5% (0.05) otherwise rejected.

The table 4 above shows that the coefficient of determination (McFadden R^2) value of 0.130854 and 0.129696 for binary logit and binary probit regression which revealed that about 13% of the systematic changes in the dependent variable, auditor's switching were jointly explained by the independent variables, firm profitability, audit tenure, audit fees, client firm size and audit delay leaving about 87% unexplained by factors not captured in the model. On account of the overall significance of the model, the LR statistic and its associated probability of 0.00 across the binary models (logit and probit) indicates that all the independent variables taken holistically significantly explain the dependent variable. Hence, the explanatory power of the model is strong.

Based on the individual relationship of the independent variables, the signs of the z-statistics showed that firm profitability (FPT) exerts a negative (-2.01) and insignificant (0.43) effect on auditor's switching (AUDSW) of the binary logit and a negative (-1.03) and insignificant (0.45) effect on auditor's switching (AUDSW) of the binary probit. The negative effect signifies a change in firm profitability would lead to low level of auditor's switching but it is statistically insignificant. The insignificant effect is because the variable failed z-test at >0.05 level of significance. Audit tenure (AUDT) exerts a negative (-2.45) and significant (0.02) effect on auditor's switching (AUDSW) at 5% level of significance of the binary logit and exerts a negative (-1.14) and significant (0.00) effect on auditor's switching (AUDSW) of the binary probit at 1% level of significance. With respect to the individual significance of the variable, the probability values of the z-statistics revealed that the variable significantly reduce the level of auditor's switching at 1% and 5% significance level. This therefore means that the presence of audit tenure has the probability of experiencing low level of auditor's switching. This indicates audit tenure is a main determinant of auditor's switching. The significant effect is because the variable passed z-test at < 0.05 level of significance. Also, audit fee (AUDF) exerts a positive (3.57) and insignificant (0.95) effect on auditor's switching (AUDSW) of the binary logit and exerts a positive (2.52) and insignificant (0.94) effect on auditor's switching (AUDSW) of the binary probit. The positive effect signifies an increase in audit fees would lead to frequency of auditor's switching but it is statistically insignificant. The insignificant effect is because the variable failed z-test at >0.05

level of significance. In the case of client firm size (CFS), the variable exerts a positive (0.27) and insignificant (0.67) effect on auditor's switching (AUDSW) of the binary logit and exerts a positive (0.13) and insignificant (0.69) effect on auditor's switching (AUDSW) of the binary probit. The positive effect implies that change in client firm size has the tendency of experiencing high level of auditor's switching but it is statistically insignificant. The insignificant effect is because the variable failed z-test at >0.05 level of significance. Audit delay (AUDD) exerts a positive (0.004) and an insignificant (0.28) effect on auditor's switching (AUDSW) of the binary logit and exerts a positive (0.002) and an insignificant (0.30) effect on auditor's switching (AUDSW) of the binary probit. The positive effect indicates the presence of audit delay has the tendency of witnessing high level of auditor's switching but it is statistically insignificant. The insignificant effect is because the variable failed z-test at >0.05 level of significance. To check for the misspecification of the model, Ramsey Rest test is conducted and it is revealed that the high probability value of the t-statistic, f-statistic and likelihood ratio (0.1376, 0.1376 and 0.1286) showed that the model for the study is well specified. This means that the result from this study is very sound for policy implementation and recommendation.

DISCUSSION OF FINDINGS

The binary regression showed that firm profitability exerts a negative and insignificant effect on auditor's switching across the binary models (logit and probit). The finding is consistent with the findings of Elewa and El-Haddad (2019) in Egypt and Sayyar, Basiruddin, Abdul Rasid and Elhabib (2015) in Malaysia that that firm profitability exerts an insignificant relationship with audit firm rotation. The finding was inconsistent with the findings of Khasharmeh (2015) conducted a study on the determinants for auditor switch among listed companies in Bahrain Bourse that firm profitability (financial conditions of the client) has a negative relationships with auditor switch. The study therefore suggested that we should accept the hypothesis that firm profitability has no significant effect on auditor's switching. Audit tenure exerts a negative effect and significant effect on auditor's switching across the binary models (logit and probit) at 1% level of significance. The finding was consistent with the findings of Suyono, Feng and Riswan (2013) that audit tenure significantly affect auditor switching. The result was also consistent with the finding of Qawqzeh, Endut, Rashid, Johari, Hamid and Rasit (2018) on the relationship between auditor tenure, audit firm rotation and audit quality that the long time between the auditor and his client negatively impacted on auditor switching. The study therefore suggested that we should reject the hypothesis that audit tenure has no significant effect on auditor's switching.

Audit fee exerts a positive and insignificant effect on auditor's switching across the binary models (logit and probit). The finding was consistent with the findings of Suyono, Feng and Riswan (2013) audit fees had an insignificant effect on auditor's switching. The study of Nyakuwanika (2014) was also inconsistent with the finding that audit fees significantly influence auditor's switching from one company to another. The finding of Hussein (2015) and Asthana, Khurana and Raman (2019) were also inconsistent with the results that audit fee competition had a positive relation with the incumbent auditors switching risk. Also, the finding of Khasharmeh (2015) on the determinants for auditor switch among listed companies in Bahrain Bourse found contrary result that audit fees had positive relationships with auditor switching. The study therefore suggested that we should accept the hypothesis that audit fee has no significant effect on auditor's switching. Client firm size exerts a positive and insignificant effect on auditor's switching across the binary models (logit and probit). The result was consistent with the findings of Kasih and Puspitasari (2017:589) on the effect of audit delay, client size and audit committee changes on auditor switching in Indonesia that client firm size has a positive and insignificant effect on auditor switching. The study of Onatuyeh and Nwabuko (2016) also support the findings that client firm size was negatively and not significantly related auditor's switching. The finding was inconsistent with the findings of Nyakuwanika (2014) in Zimbabwe and Nazri, Smith and Ismail (2012) in Malaysian that client size significantly influence auditor's switching from one company to another. The study therefore suggested that we should accept the hypothesis that client firm size has no significant effect on auditor's switching. Audit delay exerts a positive and insignificant effect on auditor's switching across the binary models (logit and probit). The result was consistent with the findings of Kasih and Puspitasari (2017:589) on the effect of audit delay, client size and audit committee changes on auditor switching in Indonesia that audit delay has a positive and insignificant effect on auditor switching. The findings of Enofe, Mgbame and Abadua (2013) on the relationship between audit firm rotation and audit report lag in Nigeria support the results that audit firm rotation had a negative and insignificant relationship with audit report lag. The result was inconsistent with the findings of Pawitri and Yadnyana (2015) on the effect of audit delay on auditor switching in Indonesia audit delay has significant effect to auditor switching. The study therefore suggested that we should accept the hypothesis that audit delay has no significant effect on auditor's switching.

CONCLUSION AND RECOMMENDATIONS

The study focused on the determinants of auditor's switching behaviour in Nigeria. The presence of accounting quality increases with increase in auditor's switching as a result of increased auditor independence. The audit report is the end product of every audit assignment that the auditor issues to the members of a client company expressing his opinion on the truth and fairness view regarding an enterprise's financial statements. Auditor's switching is seen as the movement of auditor from one client firm to another either by resignation or dismissal by the recommendation of the audit committees. The results showed firm profitability exerts a negative and insignificant effect on auditor's switching, audit tenure exerts a negative and significant effect on auditor's switching, audit fee exerts a positive and an insignificant effect on auditor's switching, client firm size exerts a positive and insignificant effect on auditor's switching and audit delay exerts a positive and insignificant effect on auditor's switching across the binary models. The study recommended that management and investors should consider the level of firm profitability when looking at auditor's switching with the aim to improve audit quality, also management usually hold on to the services of audit firm when there is the tendency of quality financial reporting and further empirical studies should be conducted in the area of auditor switching by extending the scope to all sectors of the Nigeria economy.

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