International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

Auditor Switch Decisions and corporate Performance Quoted Companies in Nigeria

Ezejiofor, Raymond A. and Ezekwesili Tochukwu P.

Department of Accountancy, Nnamdi Azikiwe University, Awka, Nigeria.
Mail: thaddray4life@yahoo.com: ezekwesilitochukwu@gmail.com;

ABSTRACT

This study investigated the effect of auditor switch decision on corporate performance of quoted companies in Nigeria from 2012-2020. *Ex Post Facto* research design was adopted. Data were extracted from the sampled companies. Using regression analysis, the study revealed that return on capital employed did not affect significantly as a result of the auditor switch decision and opinion expressed by the auditors. The study offers evidence that the choice of auditor does not affect a company's return on capital employed in Nigeria. Therefore, businesses should make sure that new auditors are brought in to do supervision tasks and pay particular attention to ways to increase earnings.

Keywords: Auditor switch, corporate performance and Auditor opinion

INTRODUCTION

There are two types of financial statement audits: internal and external. However, this study concentrated on external financial statement audits, which are regarded as mandatory for all organizations. According to the law (Collis, Jarvis, and Skerratt, 2004; Hussein, 2018), publicly traded corporations are required by law to perform external audits (Nzomo, 2002). As a result, external auditors are required by law to express an opinion on the accuracy and integrity of an entity's financial accounts for a specific time (Quick, 2012). External auditors are therefore responsible to shareholders and have a duty to the company to execute the audit with due professional care. There have been many debates in the modern era over the selection of auditors and the justifications for changing auditors. When an audit firm's contract expires, the company must choose a new auditing firm to undertake its external audits. However, the transfer may also take place for other reasons, such as contract violations. Auditor switch decisions entail the replacement of the current auditor, which leads to the selection of high-caliber, distinctive audit firms in order to realign the features of the audit company with expanding client needs under shifting conditions (Okere, Ogundipe, Oyedeji, Eluyela and Ogundipe, 2018).

The act of switching auditors entails resignation and release from obligations to client firms (Turner, Williams and Weirich, 2005; and Gwizu, Waeni, Chimanga, Saidi and Karasa, 2017). Changing auditors can leave investors with bad feelings and low faith in financial reports, depending on whether the change is from a Big-4 to a Big-4 or a Big-4 to a non-Big 4. Companies are required to switch out their external auditors on a regular basis, say every three to nine years, under a mandatory auditor switch system. Advocates of audit switching or rotation contend that forcing auditors to switch or rotate would undermine their independence and prevent them from aligning with management. An auditor, for instance, might rely heavily on a client for financial support (Hoyle, 1978).

According to Mohamed and Habib (2013), issues with auditor independence and audit quality are the key factors that influence choices to switch auditors. On the other side, Nigeria currently has over 2,000 audit firms that offer audit services to both listed and unlisted domestic businesses (World Bank, 2011). Despite the fact that there are many audit companies available, the "Big-4" are a limited group of very large audit firms that predominate the audit market. KPMG, Ernst & Young, Akintola Williams Deloitte, and Pricewaterhouse Coopers are the country's top four auditing companies (PWC). According to the World Bank (2004), the big four audit firms provide audit services to around 90% of Nigeria's listed companies, with the remaining 10% being national firms with international affiliations audit.

More concerning is the lack of in-depth research on the question of whether auditor switches decisions may impact company performance in Nigeria in a single study. A specific measure has only been used in a small number of research on auditor switch decisions and business performance, therefore it may not be a reliable indicator of these two factors. Given that auditor switching decision and corporate performance are multidimensional concepts, Sook, Seon, Dong and Seung (2019); and Tan, Ong, Chong and Samuel (2016) argued that a good measure for auditor switch decision and corporate performance should be an ongoing process rather than a discrete measure. Given the foregoing, this study aimed to investigate the impact of auditor switch decisions on the performance of companies in Nigeria.

REVIEW OF RELATED LITERATURE

Auditor Switch Decisions

To realign the features of the audit firm with the expanding needs of customers in light of changing circumstances, auditor switch decisions entail the departure of the incumbent auditor and the selection of high-quality, differentiated audit firms (Huson, Shamsher, Annuar, and Ariff, 2000) Numerous academics, auditing standards, and statements have all defined auditing. According to Choi and Wong (2007), selecting a particular auditor is a strategic and complicated choice that differs between firms due to their various motivations/incentives. According to Stergiou (2013), managers assess each auditor based on a variety of criteria and considerations. Therefore, managers weigh the marginal costs and benefits of engaging a specific auditor (Okereet al 2018). Alternately, the minimal cost fit between client needs (demand side) and auditor needs is how the client-auditor coalition is viewed (Datar, Feltham and Hughes, 1991).

Return on Capital Employed

Companies utilize the financial ratio of return on capital employed (ROCE) to evaluate their performance. Because it assesses a company's profitability after taking into account the capital required to attain that profitability, ROCE is a good predictor of how efficient a business is. It is a proportion of capital utilized to profits before interest and taxes (EBIT). Share capital, retained earnings, and long-term borrowings are typically included in the capital employed calculation. Capital employed can also be calculated by dividing Total Assets by Current Liabilities, or Total Assets minus Current Liabilities. A reliable indicator of the overall resources at a company's disposal is capital employed. EBIT, commonly referred to as operational income, demonstrates how much a business makes from operations alone, without taking into account interest or taxes. The researcher included ROCE because it considers both debt and equity financing and is a stronger indicator of the performance or profitability of the company over a longer period of time than ROE and ROA, which were employed in the majority of the studies.

Therefore, the researcher hypothesized that auditor switch decision has no significant influence on return on capital employed of listed non-finance enterprises in Nigeria because she believes that auditor switch decision may have a large influence on the return on capital employed.

Audit Opinion

A certification that is attached to financial statements is called an auditor's opinion. It provides an opinion on whether there are any major misstatements in the financial statements based on an audit of the processes and documents used to create them. If a business is publicly traded or operates in an industry subject to Securities and Exchange Commission regulation, it is legally compelled to submit audit reports (SEC).

According to Defond and Jiambalvo (1993), an auditor-client dispute typically arises when the auditor disagrees to a contentious accounting method that the management already employs or intends to employ. If not addressed, this could result in the auditor switching.

It has been determined that disagreement with an auditor's opinion influences decisions to transfer auditors (Haskins and Williams, 1990). Lei, Zhou and Wang (2020) in their work found out that auditor resignations are more often accompanied by auditor-client disagreements.

Empirical Studies

The impact of internal auditing on the financial performance of Nigerian commercial banks was studied by Ezejiofor and Okolocha in 2020. The researchers used frequency counts, mean scores, and standard deviation in their data collection and analysis. With the help of SPSS version 20.0, simple regression analysis was done to evaluate the hypotheses at a 5% level of significance. Internal audit controls and procedures have been found to positively impact commercial banks' financial performance in Nigeria, and this impact is statistically significant at the 5% level of significance. Okere, Ogundipe, Oyedeji, Eluyela, and Ogundipe (2018) investigated how the choice of auditors affected quoted firms in Nigeria's funding decisions. The study made use of secondary data gathered between 2010 and 2014. The results of the linear regression method used to evaluate the data revealed that while auditor choice significantly increases cost of equity, it significantly decreases long-term debt. Regression and Pearson correlation were used in Zimbabwe by Gwizu, Waeni, Chimanga, Saidi, and Karasa (2017) to evaluate the effects of required audit firm rotation on audit quality using fifteen (15) audit firms registered on the Zimbabwe Stock Exchange (ZSE). With the exception of a high negative association between the length of audit tenure and audit quality, results from regression analysis and Pearson correlation showed a strong positive linear relationship between mandated audit firm rotation and audit quality. Regression analysis was used by Stakebrand (2017) to assess the effect of auditor rotation on audit quality in European businesses from 1995 to 2014. The study found that audit rotation significantly impact on audit quality. Matoke and Omwenga (2016) looked at the connection between the financial performance of listed companies on the Nairobi Securities Exchange and the audit quality. 89 respondents' quantitative and qualitative responses to questionnaires were gathered, and the reliability of the data was assessed using the Cronbach (Alpha) model. The study's conclusions show that audit quality has a positive and considerable impact on financial performance, and that a corporation is more likely to have significant net profit margins the more independent the auditor is. Although it had a smaller effect than that of auditor independence, the impact of auditor size was nonetheless favorable and significant. Olowookere and Inneh (2016) examined the factors influencing the selection of auditors among listed industrial businesses in Nigeria. The study employed a survey research approach, and structured questionnaires were used to administer primary data. Both descriptive and inferential statistics were applied to the data analysis. The idea was put to the test using logistic regression. The findings indicated that international coverage and a company's history of working with its present auditors are the two most crucial criteria that affect the choice of auditors. In Malaysia, the relationship between corporate governance, auditor switching, and financial performance from 2009 to 2013 was examined by Tan, Ong, Chong, and Samuel (2016). Secondary data were used in the study. The findings showed that the separation of the chairman of the board of directors (BOD), the chief executive officer (CEO), and the CEO had a negative and significant impact on auditor switching, but not on ROA and ROE. Additionally, the findings indicated that auditor change had a favourable, non-significant impact on Tobin's Q, ROA, and ROE. However, the effect of CEO duality and the presence of independent directors on ROA, ROE, and Tobin's Q were completely mitigated by auditor flipping. Mara, Giulia, and Pettinicchio (2015) assessed the audit obligatory rotation requirement between the auditor and client in the United States. According to the regression analysis, the mandated audit rotation regulation has a considerable impact on the relationship between the auditor and the customer. The effect of audit quality on the financial performance of quoted firms was studied by Farouk and Hassan (2014). Data were gathered from the four companies that make up the study's sample's published annual reports, accounts, and notes to the financial statements. The results demonstrated that the financial performance of listed cement manufacturers in Nigeria is significantly impacted by the auditor size and auditor independence. However, auditor independence has a greater impact on financial success than auditor size. Arezoo, Zakiah, and Azam (2011) assessed the factors that influence companies listed on the Tehran Stock Exchange when changing auditors. Between 2003 and 2007, 182 businesses were used. The regression analysis shows that only auditor size, out of the six criteria examined in this study, is significantly connected to auditor switch among organizations listed on Tehran stock exchange. Between 2003 and 2007, 182 businesses were used. According to the regression analysis, only auditor size, out of the six criteria examined in this study, is significantly connected to auditor switch among companies listed on the Tehran Stock Exchange. Revier and Schroé (2010) looked into the factors that influence auditor switching in the EU. 35559 businesses from 12 different European nations, including Belgium, Denmark, Ireland, Finland, France, Germany, Greece, the Netherlands, Spain, Sweden, the United Kingdom, Portugal, the Czech Republic, Estonia, Hungary, Poland, Latvia, and Slovakia, made up the sample. The hypotheses were tested using logistic regression. The findings revealed a positive and significant relationship between inventories and receivables and total assets. Negative and substantial coefficients of leverage were present. ROA, the control variable, was statistically significant but positive. The country of origin, or whether it is a member of the English, French, or German legal systems, was all important but detrimental.

METHODOLOGY

Research Design

This study adopts the *Ex-Post Facto* research design. Ex-post-facto research design observes event after they have occurred (reporting year).

The population of the study comprised of companies in Nigeria. Given the above, the study population is made up of one hundred and sixteen manufacturing companies in Nigeria. The purposive sampling technique to seventy-five (75) companies was selected in Nigeria. Data were extracted from the annual reports and accounts of the selected companies in Nigeria. The statement of financial position and comprehensive incomes provided data used in computing the selected ratios.

Model Specification

In view of the dependent, independent and control variable of the study, the study adopted Hair, Black, Babin, Anderson, and Tatham (2006) model

$$RCE_{IT} = \eta_0 + \eta_1 BIG4_{IT} + \eta_2 ADO_{IT} + + \sum_{T} \ldots\ldots\ldots i$$

Where:

RCE = Return on capital employed

BIG4 = Big 4 and non Big 4 audit firms (represent audit switch decision)

ADO = Audit opinion

t = Time dimension of the variables;

η_0 = Constant or intercept;

$\eta_{1\text{-}2}$ = Coefficients to be estimated or the coefficients of slope parameters.

Methods of Data Analysis

The study employed descriptive statistics were computed such as mean, median, standard deviation, minimum, maximum values, skewness, kurtosis and correlation matrix. The hypotheses were tested with Regression analysis with aid of E-view 9.0 statistical software.

Decision rule:

Using SPSS, 5% is considered a normal significance level. The accept/reject criterion was based on the p-value, alternative hypothesis will be accepted. If p-value > 0.05 otherwise reject and accept the null hypothesis.

RESULTS AND DISCUSSION

Table 1: Descriptive Analysis

	RCE	BIG4	ADO
Mean	8.626086	0.602041	0.500000
Median	13.77395	1.000000	0.500000
Maximum	122.3869	2.000000	1.000000
Minimum	-592.2350	0.000000	0.000000
Std. Dev.	65.13114	0.512519	0.502571
Skewness	-8.123757	-0.185037	0.000000
Kurtosis	75.70271	1.585576	1.000000
Jarque-Bera	22661.13	8.728328	16.33333
Probability	0.000000	0.012725	0.000284
Sum	845.3564	59.00000	49.00000
Sum Sq. Dev.	411480.3	25.47959	24.50000
Observations	98	98	98

Table 1 presents the descriptive statistics for the dependent variable (RCE) and the independent variables (BIG4 and ADO). The mean serves as a tool for setting benchmark. The median re-ranks and takes the central tendency. While the maximum and minimum values help in detecting problem in a data. The standard deviation shows the deviation/dispersion/variation from the mean. It is a measure of risk. The standard deviation is a measure that summarizes the amount by which every value within a dataset varies from the mean. It is the most robust and widely used measure of dispersion. The standard deviation in the auditor switch decisions for the period 2012-2020 are; 8.63, 0.60, and 0.50 for RCE, BIG4 and ADO respectively. Skewness and Kurtosis are contained in Jarque-Bera. Positively skewed is an indication of a rise in profit while negatively skewed is an indication of loss or backwardness. Jarque-bera is used to test for normality; to know whether the data are normally distributed.

Test of Hypothesis

Ho: Auditor switch decision has no significant effect on corporate performance of quoted companies in Nigeria

Table 2: Regression analysis between RCE, BIG4 and ADO

Dependent Variable: RCE
Method: Least Squares
Date: 06/27/22 Time: 20:49
Sample: 1 99
Included observations: 98

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.613252	11.88339	0.219908	0.8264
BIG4	-4.924059	12.93011	-0.380821	0.7042
ADO	17.95464	13.18607	1.361636	0.1765

R-squared	0.220051	Mean dependent var	8.626086
Adjusted R-squared	-0.020579	S.D. dependent var	65.13114
S.E. of regression	65.15001	Akaike info criterion	11.22140
Sum squared resid	403229.7	Schwarz criterion	11.30053
Log likelihood	-546.8484	Hannan-Quinn criter.	11.25340
F-statistic	0.971911	Durbin-Watson stat	1.591659
Prob(F-statistic)	0.382089		

In table 2, a panel least square regression analysis was conducted to test the relationship between auditor switch decision (BIG4) and financial performance (RCE). R-Squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the table 2, the value of R squared was 0.22, an indication that there was variation of 22% on corporate performance due to changes in BIG4, and auditor opinion (ADO). This implies that only 22% changes in BIG4 of the economy could be accounted for by BIG4, while 78% was explained by unknown variables that were not included in the model. The probability of the slope coefficients indicate that; P (0.70>0.05). The co-efficient value of; β_1= -4.92 implies that BIG4 is negatively related to RCE, and also not statistically significant at 5%. Meanwhile, the probability of the slope coefficients indicate that; P (0.18>0.05). The co-efficient value of; β_1= 17.95 implies that ADO is positively related to RCE, though not statistically significant at 5%.

The Durbin-Watson Statistic of 1.59 suggests that the model does not contain serial correlation. The F-statistic of the RCE regression is equal to 0.97 and the associated F-statistic probability is equal to 0.38, so the null hypothesis was accepted and the alternative hypothesis was rejected.

Decision

Since the Prob (F-statistic) of 0.38 is higher than the critical value of 5% (0.05), then, it would be upheld that Auditor switch decision has no significant effect on corporate performance of quoted companies in Nigeria at 5% level of significance, thus, Ho is preferred over H_1.

Conclusion

This study examined the effects of specific auditor characteristics on the financial performance of listed firms in Nigeria between 2012 and 2020. Since auditors are the primary users of accounting data, it is important to understand whether and how the dynamics of big-4 and nonbig-4 audit firms and audit opinions impact the performance of non-finance companies in Nigeria. This issue is of interest to academics, business professionals, and management alike.

The findings imply that switching to one of the Big 4 audit firms—or perhaps because of the auditors' opinion—did not significantly boost return on capital employed. The study offers evidence that the choice of auditor does not affect a company's return on capital employed in Nigeria. Therefore, businesses should make sure that new auditors are brought in to do supervision tasks and pay particular attention to ways to increase earnings.

REFERENCES

Arezoo, A.C., Zakiah, M.M. and Azam, J. (2011). The determinant factors of auditor switch among companies listedon Tehran stock exchange.*2011 International Conference on Sociality and Economics Development IPEDR vol.10 (2011) IACSIT Press, Singapore.*

Choi, J. H., and Wong, T. J. (2007). Auditors' governance functions and legal environments: An international investigation. *Contemporary Accounting Research*, *24*(1), 13-46.

Collis, J., Jarvis, R., and Skerratt, L. (2004). The demand for the audit in small companies in the U.K. *Accounting & Business Research*, *34*(2), 87-100.

Datar, S. M., Feltham, G. A., and Hughes, J. S. (1991). The role of audits and audit quality in valuing new issues. *Journal of Accounting and Economics*, *14*(1), 3-49.

Defond, M. and Jiambalvo, J. (1993) Factor related to auditor-client disagreements over income-increasing accounting methods. *Contemporary Accounting Research,9(2),415-31.*

Ezejiofor, R. A., and Okolocha, C. B., (2020). Effect of internal audit function on financial performance of commercial banks in Nigeria. *International Journal of Advanced Academic Research (Social and Management Sciences)* | ISSN: 2488-9849 6(7). www.ijaar.org Journal DOI: 10.46654/ij.24889849 Article DOI: 10.46654/ij.24889849.s6723.

Farouk, M. A., and Hassan, S. U. (2014). Impact of audit quality and financial performance of quoted cement firms in Nigeria. *International Journal of Accounting and Taxation*, *2*(2), 01-22.

Gwizu, K., Waeni, G., Chimanga, D., Saidi, E. andKarasa, N. (2017). Mandatory audit firm rotation and audit quality in Zimbabwe. *Research Journal of Finance and Accounting,8*(6), 34-41.

Hoyle, J (1978). Mandatory auditor rotstion; The arguments and alternatives, *Journal of Accountancy,145(5), 69-78.*

Huson, J., Shamsher, A., Annuar, M.N. and Ariff, M. (2000). Auditor switch decision of Malaysian listed firms: Tests of determinants and wealth effect. *Pertanika J. Soc. Sci. &Hum*., *8*(2), 77-90.

Lei, D, Zhou,Y and Wang,Y.(2020), Auditor-Client disagreements, auditor resignations, and audit fees charged by successor auditors , *The Journal of Applied Business Research,36(1)*, 15-28.

Mara, C., Giulia, N. andPettinicchio, A. (2015). The audit mandatory rotation rule: The state of the art. *The Journal of Financial Perspectives, 3*(2), 1-29.

Matoke, V. N., and Omwenga, J. (2016). Audit quality and financial performance of companies listed in Nairobi Securities Exchange. *International Journal of Scientific and Research Publications*, *6*(11), 372-381.

Mohamed, M. D., and Habib, H. M. (2013). Auditor independence, audit quality and the mandatory auditor rotation in Egypt. *Education, Business and Society: Contemporary Middle Eastern Issues*, *6*(2), 116-144.

Nzomo, N. (2002). *Basic Accounting*: *Fundamental Principles and Procedures*. Nairobi University Press.

Okere, W., Ogundipe, U. L., Oyedeji, L. Q., Eluyela, D. F., and Ogundipe, K. E. (2018). Auditors’ choice and financing decision of selected quoted firms in Nigeria. *International Journal of Management, Accounting and Economics*, *5*(2), 66-77.

Olowookere, J. K., and Inneh, G. E. (2016). Determinants of external auditors choice in Nigerian quoted manufacturing companies. *Kuwait Chapter of the Arabian Journal of Business and Management Review*, *5*(9), 10-22.

Quick, R. (2012). EC green paper proposals and audit quality. *Accounting in Europe*, *9*(1), 17-38.

Revier, E., and Schroé, R. (2010). *Determinants of auditor choice* (Unpublished Master’s Thesis). Faculteit Economie En Bedrijfskunde, Universiteit Gent.

Sook, M. K, Seon, M.K, Dong, H.L and Seung W.Y. (2019). How investors perceive mandatory audit firm rotation in Korea. *Sustainability, 11*:2-17.

Stergiou, E. (2013). *Determinants of auditor choice in the European market* (Unpublished Master’s Thesis).School of Economics and Business Administration, International Hellenic University.

Tan, I. Y., Ong, S. T., Chong, L. L., and Samuel, A. B. (2016). Auditors switching in the relationship between corporate governance and financial performances-Evidence from Malaysian Public Listed Companies (PLCs). *International Journal of Economics & Management*, *10*(1), 53-68.

Utomo, D., Zaky, M. and Imang, D.P. (2019). The effect of auditor switching and managerial ownership on fraudulent financial statement. *WSEAS*

Transactions on Business and Economics, *16*(1), 306-315.

World Bank (2004). *Nigeria - Report on the observance of standards and codes (ROSC)accounting and auditing (English)*. Washington, DC: World Bank. Available online at http://documents.worldbank.org/curated/en/1096814 68288617735/Nigeria-Report-on-the-Observance-of-Standards-and-Codes-ROSC-accounting-and-auditing [Accessed 18 January, 2019].

World Bank (2011). *Nigeria - Report on the observance of standards and codes (ROSC).* Washington, DC: World Bank. Available online at http://documents.wo rldbank.org/curated/en/440581468099577387/Nigeria-Report-on-the-observance-of-standards-and-codes-ROSC [Accessed 18 January, 2019].