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EFFECT OF AUDITOR SWITCH DECISIONS ON FINANCIAL PERFORMANCE OF QUOTED FIRMS IN NIGERIA

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Abstract
This study examined the effect of auditor switch decisions on financial performance of firms in Nigeria. Specifically, the study ascertained the effect of auditor switch decisions on Tobin's Q of Nigerian firms. Ex-Post Facto research design was employed and data were extracted from the annual reports and accounts from 2012 to 2020 from a sample size of 75 firms in Nigeria. Data obtained were analysed via descriptive statistics and lest regression analysis. The results revealed that auditor switch decisions and corporate performance variables fitwell in the estimated models, since it is statistically significant at 0.05%, hence auditor switch decisions and Tobin's Q were significantly affected. Based on the findings, The analysis suggested that auditor switch would not considerably alter Tobin's Q in light of its findings. Tobin's Q) of their companies would significantly increase further; Nigerian businesses should assess the quality of the auditor before transferring. ***Keywords:*** *Audit Switch, Financial Performance, Audit Fee, Firms, Nigeria*

Introduction

The primary goal of financial statements, both in Nigeria and around the world, is to deliver data that helps a variety of people make knowledgeable economic decisions. The goal of financial statements, according to Chadegani, Mohamed, and Jari (2011), is to offer information on the financial situation, performance, and changes in the financial position of businesses. Managers use financial statements to report on their stewardship to owners of wealth (International Accounting Standard Board framework - IASB, 2005). In general, financial accounting information has two (2) main goals. First, it allows managers to communicate with interested parties both inside and outside of a company, which reduces information asymmetry between them, and It is frequently used in agreements between businesses and other parties involved in their operations, including financiers, managers, business partners, and the government (Chen, Rong-Ruey, Cheng-Ta and Lin-Hui, 2019). As a result, there is flexibility for ownership and control to be separated. In most organizations, the division of ownership and control frequently results in agency problems. The necessity for wealth owners (principals) to confirm the actions of managers (agents) may have given rise to external audit as a means of resolving the agency issue between wealth owners and corporate management (Hamza, Wan, Norfadzilah, Razana, Nadiah and Zarinah, 2018; Sook, Seon, Dong and Seung, 2019; and Utomo, Zaky and Imang, 2019).

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 and Choi, Lim and Mali, 2017).

The act of switching auditors entails resignation and release from obligations to client firms (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 must periodically switch out their external auditors, say every three to nine years, under a required auditor switch regime. 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.

Altering your auditors can also help prevent rapid company failure. Major corporate scandals including those involving Worldcom and Enron (US), Parmalat (Italy), Transmile Group Berhad (Malaysia), Oceanic Bank (Nigeria), Intercontinental Bank (Nigeria), Afribank and Cadbury (Nigeria), among others, have all been connected either directly or indirectly to dishonesty, misleading, and untruthful accounting (Vlatu, Amat, and Cuzdrirean, 2017. 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 Price water house Coopers are the country's top four auditing companies (PWC). According to the World Bank (2004), the largest four audit firms handle the audits for around 90% of Nigeria's listed companies, with the remaining 10% being national firms with international affiliations. In light of this, the current study used Tobin's Q to ascertain the impact of auditor switch choices on the financial performance of quoted Nigerian firms. At the backdrop of these, the researchers formulated the below stated hypothesis in the null form to navigate their investigations:

H_0: Auditor switch decisions have no significant effect on Tobin’s Q of manufacturing firms in Nigeria.

Review of Related Literature Conceptual Review Auditor Switch Decisions

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 (Okere et al 2018). An alternative perspective on client-auditor coalition is one in which the minimum cost match between client needs (supply side) and auditor services (demand side) is taken into consideration (Datar, Feltham and Hughes, 1991). It is interesting to note that wealthy people are captivated by the idea of selecting a certain auditor because of the possible impact on maximizing their wealth (Jubb, 2000). Theoretically, such a transition could involve moving to a Big-4 audit company from a smaller, non-Big-4 audit firm (Lin and Liu, 2009). Prior research (Gharibi and Geraeely, 2016, Stergiou, 2013) has demonstrated that switching to a smaller audit company results in a negative reaction from investors and other market participants. Contrary to the latter, which reduces the chance of earnings management or "tunneling" activities and improves audit quality (Kusrina and Yulivani, 2016; Olowookere and Inneh, 2016).

The choice to transfer auditors has been defended in a number of ways. For the proposed positive correlation between auditor size and audit quality, Gray and Ratzinger (2010) presented two hypotheses. First, according to the "reputation theory," major auditors are more motivated to produce higher-quality audits in order to prevent losing client-specific rents from incorrect reports (DeAngelo, 1981). By creating a corporate governance index made up of governance features, Cassell, Giroux, Myers, and Omer (2012) explored the impact of corporate governance on realignments of auditors and clients. The results showed that Big-4 auditors considered client corporate governance mechanisms in making client portfolio decisions. Besides, they found a tendency for switching to a non-Big-4 auditor for clients that scored lower on corporate governance index.

Corporate Performance

The financial statement can be used to determine an entity's performance. As a result, a successful organization is expected to strengthen the quality of disclosure in its financial statements (Herly and Sisnuhadi, 2011). Additionally, market-based measurement ratios are distinguished by their prospective nature and their reflection of the shareholders' expectations of the entity's future success, which is based on either historical or current financial performance (Wahla, Shah and Hussain, 2012). Tobin's Q, market value added, market-tobook value, annual stock return, dividend yield, etc. are some examples of market-based measurements. Market-based expectations for an entity's performance may give management an incentive to change its holdings in accordance with such expectations. The two measurements of company performance have some clear distinctions, according to accounting literature. This comprises accounting performance ratios, which are referred to as the measurements that look backward, and Tobin's Q, which is primarily viewed as a measure of an entity's performance that looks forward.

Additionally, research has shown that accounting-based metrics, such as return on asset, return on equity, earnings per share, book value per share, dividend per share, etc., are used to assess an entity's short-term financial performance, while market-based metrics are used to assess an entity's long-term financial performance. In light of the aforementioned, our study concentrated on market- and accounting-based measures of business performance. The accounting-based variables used in the study include Tobin's Q, earnings per share, return on equity, return on capital used, and return on asset. Because management of firms may wish to present a strong or improved market value to both internal and outside shareholders, the researcher argues that the decision to switch auditors may have a significant impact on the market value of an entity. Based on the foregoing, the researcher included Tobin's Q to the empirical model and hypothesized that there is no relationship between the choice to transfer auditors and Tobin's Q of listed non-finance enterprises in Nigeria.

Audit Fee

Companies must pay audit fees to public accounting firms in order to have their financial accounts audited. The body of existing research demonstrates that an auditee's audit expenses are mostly determined by the size and complexity of the auditee. We included audit fee as one of our control variables since it is one of the elements that influences auditor switch decisions (Ismail et al. 2008; Addams and Davis, 1994).

Review of Empirical Studies

Utomo, Zaky, and Imang (2019) investigated the relationship between managerial ownership as a moderating variable on audit quality and auditor switching to fake financial statements between 2013 and 2017. They conducted their research in Indonesia. The logistic regression analysis of 100 non-fraudulent organizations' financial statements revealed a substantial inverse relationship between audit quality and fraudulent financial statements. A substantial positive correlation between auditors turning on fake financial statements and other findings was also discovered. In Malaysia, Hamza, Wan, Norfadzilah, Razana, Nadiah, and Zarinah (2018) used a descriptive statistical tool to identify the factors affecting audit quality (auditor rotation, tenure, and switch). The study's conclusions demonstrated that audit quality declines as audit firms switch and rotate. Additionally, compared to tenure and rotation of auditors, auditor switch has a greater impact on audit quality. Choi, Lim, and Mali (2017) examined the audit quality of firms that were required to rotate their auditors with two benchmark groups in South Korea (a sample that adopted the policy voluntarily and the other consisting of mandatory rotation). The study discovered that the audit quality of the mandated rotation firm sample is poorer than that of the firms that voluntarily accepted the policy by using accrualbased measures as the audit quality measure. Kusrina and Yulivani (2016) looked into Indonesian auditor switching variables. They looked at variables such management turnover, company size, financial difficulty, audit fee, and ROA. They chose 17 banks from the 2009–2013 timeframe that were listed on the Indonesian Stock Exchange using selective selection.
To test their theories, they employed logistic regression. The findings revealed that the only factor significantly influencing auditor changeover was management turnover. Additional factors like firm size, financial difficulty, audit fee, and ROA were not statistically significant. Olowookere and Inneh (2016) examined the factors influencing the selection of auditors among listed industrial businesses in Nigeria. Primary data for the study were gathered using a structured questionnaire administered as part of a survey research methodology. Both descriptive and inferential statistics were used to analyze the data. The hypothesis was examined 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. Al Ani and Mohamed (2015) investigated how auditor quality—both big four and non-big four—affected the financial and marketing performance of firms in the Sultanate of Oman's industrial, financial, and service sectors. The annual reports for 112 businesses listed on the Muscat Securities Market (MSM) between 2009 and 2013 were examined for the study. The results of statistical study show that there are positive correlations and regressions between the Big/non-Big four, ROE, and Market fair value of shares at a 5%

level of significance (MFV). The Big/Non-Big Four has a substantial impact only on MFV in the Industrial sector, according to the MANOVA test. The other dependent variables are unaffected by Big/Non-Big Four. In the United Kingdom, Randal, Suzanne and Reck (2015) investigated the link between audit firm rotation data and audit quality using regression tool. Findings of the study showed that rotation policies are indirectly linked with higher audit quality. Farouk and Hassan (2014) looked at the influence of audit quality on the financial performance of quoted enterprises in Nigeria. 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.

Methodology

The purposive sampling technique was employed in selecting the numbers of firms from the manufacturing sector in Nigeria; bearing in mind the data requirements needed for the analysis. Thus, any firms whose required data are incomplete or unavailable were eliminated from the sample. Seventy-five (75) firms in Nigeria were selected.

The data were extracted from the annual reports and accounts of the selected firms. The statement of financial position and comprehensive incomes provided data used in computing the selected ratios. The data obtained encompassed auditor switch decisions (measured using Big-4 and non-Big-4 audit firms), corporate performance (Tobin's Q) and control variables - audit fee Data were sourced during the period 2012-2020.

Model Specification

The following models were estimated to investigate the association between auditor switch decisions and company performance in Nigeria. Using the Hair, Black, Babin, Anderson, and Tatham (2006) model, which is stated in equations as below:

$$TOBIN\ Q_{it} = \eta_0 + \eta_1 BIG4_{it} + \eta_2 ADF_{It} + \textstyle\sum_t \qquad \ldots\ldots\ldots\ldots\ldots\ldots i$$

Where:

TOBINQ = Tobin's Q;

BIG4 = Big-4 and non-Big4 audit firm;

ADF = Audit fee;

t = Time dimension of the variables;

η_0 = Constant or intercept;

η_{1-2} = Coefficients to be estimated or the coefficients of slope parameters.

Methods of Data Analysis

The study employed several techniques to analyse the data. *First*, descriptive statistics were computed such as mean, median, standard deviation, minimum, maximum values, skewness, kurtosis and correlation matrix, and inferential statistics such as Regression analysis test was performed.

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 of FindingsTable 1: Descriptive Analysis

	TOBIN_Q	BIG4	ADF
Mean	1.520811	0.555556	0.025156
Median	1.617200	1.000000	0.024200
Maximum	2.146000	1.000000	0.036500
Minimum	0.717900	0.000000	0.012800
Std. Dev.	0.415448	0.527046	0.008904
Skewness	-0.613543	-0.223607	0.048296
Kurtosis	2.898153	1.050000	1.481229
Jarque-Bera	0.568541	1.500938	0.868498
Probability	0.752563	0.472145	0.647751
Sum	13.68730	5.000000	0.226400
Sum Sq. Dev.	1.380777	2.222222	0.000634
Observations	9	9	9

Table 1 shows the mean (average) for each of the variables, their maximum values, minimum values, standard deviation and Jarque-Bera (JB) statistics (normality test).The result in Table 1 provided some insight into the nature of the selected Nigeria quoted banks that were used in this study.

It was observed that on the average over the nine (9) year period (2012-2020), the sampled quoted firms in Nigeria were characterized by positive average TOBIN Q (1.52). It was also observed that the average audit switch decision (BIG4) value over the period was 0.56; the maximum value was 1.000 while the minimum stood at 0.00. While the audit fee (ADF) has an average of 0.03 with maximum value of 0.04 and minimum value of 0.01. In Table 1, the Jarque-Bera (JB) which test for normality or the existence of outlier or extreme values among the variables shows that all our variables are normally distributed. This also implies that a least square regression can be used to estimate the pooled regression models.

Table 2: Pearson Correlation Matrix

	TOBIN_Q	BIG4	ADF
TOBIN_Q	1		
BIG4	0.76426	1	
ADF	0.17373	0.68779	1

Source: Researcher's Computation via E-View 9.0, 2022

Table 4.2 showed the Pearson correlation matrix for auditor switching decisions measures (*ADF, BIG4)* and corporate performance measure of *TOBIN Q*. The results revealed that the correlation between auditors switching decision and corporate performance is positive. This implies that during the studied period, *TOBIN Q* moved together in similar direction (negatively) with auditors switching decision, particularly there is a positive correlation between *TOBIN Q* and auditor switching decision.

Test of Hypothesis

H_0: Auditor switch decisions have no significant effect on Tobin's Q of manufacturing firms in Nigeria.

Table 3: Regression Results for Auditor Switching Decision and Tobin's Q

Dependent Variable: TOBIN_Q
Method: Least Squares
Date: 06/23/22 Time: 22:54
Sample: 2012 2020
Included observations: 9

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.768831	0.232280	7.615069	0.0003
BIG4	0.964523	0.188535	5.115879	0.0022
ADF	-31.16075	11.15950	-2.792307	0.0315

R-squared	0.819133	Mean dependent var	1.520811
Adjusted R-squared	0.758844	S.D. dependent var	0.415448
S.E. of regression	0.204017	Akaike info criterion	-0.080026
Sum squared resid	0.249737	Schwarz criterion	-0.014285
Log likelihood	3.360118	Hannan-Quinn criter.	-0.221896
F-statistic	13.58675	Durbin-Watson stat	1.536891
Prob(F-statistic)	0.005917		

In table 3, a ordinary least square regression analysis was conducted to test the effect between audit switch decision (BIG4) and financial performance (TOBIN Q). Adjusted 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 3, the value of adjusted R squared was 0.759, an indication that there was variation of 76% on TOBIN Q due to changes in BIG4. This implies that only 76% changes in TOBIN Q of the companies could be accounted for by audit switch decision, while 24% was explained by unknown variables that were not included in the model.

The probability of the slope coefficients indicate that; P-value =0.002<0.05). The co-efficient value of; β_1= 0.964523; t = 5.115879 for BIG4, implies that audit switch has a positive statistically significant effect on financial performance of the firms. Also, P-value =0.032<0.05); co-efficient value of β_1= -31.16075; t = -2.792307 for audit fee (ADF), the control variable implies that audit switch has a negative statistically significant effect on financial performance of Nigerian firms

The implication is that, for there to be a unit increase in BIG4 there will be 0.965 multiplying effect increase of TOBIN Q.

The Durbin-Watson Statistic of 1.536891 suggests that the model does not contain serial correlation. The Akaike info criterion of the BIG4 regression is equal to -0.080026 and the associated Schwarz criterion is equal to -0.014285, so the null hypothesis was rejected and the alternative hypothesis was accepted.

Decision

Since the P-value is less than the critical value of 5% (0.05), then, it would be upheld that audit switch decision is significantly affect financial performance of firms in Nigeria.at 5% level of significance, thus, H_1 is preferred over Ho.

Conclusion and Recommendation Conclusion

This study investigated how certain dynamics influences corporate performance of quoted non-finance companies in Nigeria from 2012-2020. As auditors are the direct users of accounting information, the question of whether and how these dynamics (big-4 and non big-4 audit firms, audit fee) affect firm's performance. The results suggest that corporate performance variable of Tobin's Q increases significantly as a result of the switch to big-4 audit firms, or perhaps due to the audit fee paid by management to the auditors.

Recommendation

On the basis of the finding, the study recommended that auditor switch decisions do not significantly affect Tobin's Q Thus, Nigerian firms should evaluate the quality of the auditor before switching so that the market share (Tobin's Q) of their firms will significantly boost further.

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