

**AUDIT TENURSHIP AND CREDIBILITY OF FINANCIAL STATEMENTS
OF BANKS IN NIGERIA**

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**A PROJECT WORK SUBMITTED TO THE DEPARTMENT OF
ACCOUNTANCY, SCHOOL OF BUSINESS STUDIES, AUCHI
POLYTECHNIC AUCHI, EDO STATE.**

**IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD
OF HIGHER NATIONAL DIPLOMA (HND) IN ACCOUNTANCY**

NOVEMBER, 2022

CERTIFICATION

We the undersigned certify that this project titled “Audit Tenurship and Credibility of Financial Statement of Banks in Nigeria” was carried out by **Orji Chinyere Gift** with **Mat No: SBS/2012060031**.

We thereby certify that the work is adequate in scope and quality in partial fulfilment for the award of Higher National Diploma (HND) in accountancy, school of business studies Auchu polytechnic, Auchu, Edo state.

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DEDICATION

This project is dedicated to God almighty for his guidance and protection in my life. Also dedicating it to my parents Mr. and Mrs. **Fidelis Orji Chukwuemeka** for their provision and encouragement.

ACKNOWLEDGEMENT

I am extremely grateful to Almighty God for his unfailing love, kindness and grace that saw me through.

Gods love for me is beyond description, his divine mercy and strength throughout my Higher National Diploma (HND) programme in Accountancy.

I also acknowledge the work of my project supervisor Mr Isah, M. for his commitment towards the success of my research work.

Gratitude to my parents Mr/Mrs **Fidelis Orji Chukwuemeka** and my wonderful siblings for their advice, financial support and prayers towards the success of this programme.

Abstract

The study examines audit tenurship and credibility of financial statements of banks in Nigeria. The study cover a period of 2010 to 2020. The specific objectives of this research is to investigate the relationship that exists between audit fee and financial statement of banks, to examine the relationship that exist between audit firm rotation and financial statements of banks and also to find out the relationship that exists between audit firm tenure and financial statement of banks, The expect facto research design was adopted in the study. This was based on analytical examination of the dependent and independent variables. Purposive sampling technique was adopted in this study because it is considered most appropriate for a research of this nature. Data were collected The raw data extracted from the annual report of sampled deposit money banks were analyzed. The Data analysis techniques that were adopted for this study consisted of descriptive statistics, correlation and ordinary least square (OLS) regression. The study revealed that there is a positive relationship between audit fee, audit firm rotation and audit quality. There exist negative relationship between audit firm tenure and audit quality. The correlation between audit quality and leverage is strong, negative and statistically significant. The correlation between audit quality and company size is strong, positive and statistically significant. Management of deposit money banks in Nigeria should consider the provisions of the Nigerian code of corporate governance in audit firm tenure and audit quality composition because it will improve the credibility of financial statement in deposit money banks in Nigeria. Therefore the researcher recommends among others that auditors in deposit money banks in Nigeria should charge reasonable fees that will cover their audit assignment so as to be able to carry out a thorough audit work. In light of this, low balling of audit fee should be discouraged.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

In recent times, research about the quality of audit report has increased tremendously, several factors has contributed to this fact, stemming from the growing importance of good corporate governance mechanism arising from highly publicized accounting scandals in Nigeria and across the globe. Many high profile corporate collapses, such as the case of world Com and Enron in the United state, have been traced to poor audit quality associated with a perceived lack of auditor independence. Recent reports of questionable accounting practices adopted by some companies in Nigeria have brought the issue of auditor's independence to the forefront, and putting the auditing profession credibility in doubt (Otusanya and Lauwo, 2010). As a result of all these questionable accounting practices engaged in by companies, auditors have been put under pressure to ensure that their reports is made up of assurance to investors whose funds are invested in those companies are properly accounted for.

In Nigeria at present, there are two recognized accounting bodies, the institute of Chartered Accountants of Nigeria (ICAN) and the Association of National Accountant of Nigeria (ANAN), which are saddled with the responsibility of regulating accounting practices in Nigeria. As stipulated by CAMA (2004) it is pertinent that every incorporated companies appoints an external auditor, who is required by law to give an independent opinion on the state of affairs of these corporations, whether or not they show a true and fair view of the financial health of the corporation. The company and allied matters act (CAMA, 2004) states that every auditor shall have the right of access, at all

times, to the books, accounts and vouchers of the company and to such information and explanation as may be necessary in the course of carrying out the audit work.

As posited by Knechel (2009), auditing and the audit process provide an evaluation of the probability of material misstatement and reduce the possibility of undetected misstatement to a reasonable or appropriate assurance level. Auditor's independence has been of serious concern not only to the end users of financial information but to the whole society in general. The need to ensure dependable and high quality audit work has largely focused on auditor's independence in order to ensure that an auditor is not too familiar with his client, because familiarity will jeopardize the integrity of the auditor and in turn impair their independent opinion as to the financial health of their client. Arrunda (2000), in his view shows that demand for auditing services arose from the need to facilitate dealings between the parties involved in business relationships- shareholders, creditors, public authorities, employees and customers.

1.2 **Statement of Problem**

A lot of debates have evolved in the academic literatures and accounting profession on the relationship among auditor tenure, auditor and credibility of financial statements (Jenkins and Vermeer,2013; Blandon and Bosch,2015).At the core of the argument is the question of auditor's independence in the auditor-client relationship; that is, the auditor's ability to maintain an unbiased standpoint in performing his audit assignments, issuing audit opinion and ensuring high quality audit report. This is because audits add credibility to financial information by providing independent verification of management-provided financial reports, and helping to reduce investors' information risk (Watts and Zimmerman, 1986; Johnson et al, 2002; Mansi, Maxwell and Miller 2004).Besides, participants in the capital market value audit quality (Teoh and Wong,1993;Moreland,1995;Khurana

and Raman 2004; Pittman and Fortin, 2004) because auditor's independence and competence affect the credibility, reliability and quality of the auditor's report (Watkins, Hillison and Morecroft, 2004). It has been argued for long (though with limited empirical evidences) that longer audit tenure could impair auditor independence and lower audit quality since a longer auditor-client relationship may breed over-familiarity and make the auditor to lose his "honest disinterestedness" (Bandon and Bosch,2015). The auditor could accede to the interest of the client's management accounting and reporting choice in order to retain the client that the audit plan becomes stale (US Senate 1976:21; AICPA, 1978 & 1992; SEC 1994; Arrunada and Paz-Ares 1997; Morrill, 2008). There is also less likelihood of qualified auditor's opinions in a lengthy auditor- client relationship (Vanstraelen,2000; Carey and Simnett,2006;Bandon and Bosch,2015).

Proponents of mandatory audit firm relationship have argue that a new auditor would bring to bear a greater skepticism and a fresh perspective that may in long standing auditor-client relationship. The proponent added the proponents added that when a company has been a client of an audit firm for a number of years, the client can be view as a source of a perpetual annuity, potentially comparing the auditor's independence. However, others concluded that mandatory audit firm rotation might not be the most efficient way to strengthen auditor independence (GAO, 2003).

1.3 **Research Question**

The following research questions will attempt to give direction to the study

- i. What is the relationship between audit fee and financial statement of banks?
- ii. What is the relationship between audit firm rotation and financial statement of banks?
- iii. What is the relationship between audit firm tenure and financial statement of banks?

1.4 Objectives of the Study

The broad objective of the study is to examine audit tenurship and the credibility of financial statements of banks in Nigeria. The study outlines the following specific objectives

- i. To investigate the relationship that exists between audit fee and financial statement of banks
- ii. To examine the relationship that exist between audit firm rotation and financial statements of banks
- iii. To find out the relationship that exists between audit firm tenure and financial statement of banks

1.5 Statement of Hypothesis (es)

The following null hypothesis (H_0) will guide the study

- i. There is no significant relationship between audit fee and financial statement of banks
- ii. There is no significant relationship between audit firm rotation and financial statement of banks
- iii. There is no significant relationship between audit firm tenure and financial statement of banks

1.6 Significance of the Study

This study provides empirical evidence to regulators, members of the accounting profession, and financial statement users as they deliberate on the costs and benefits of auditor rotation. The results of this study can assist standard setting authorities in developing policy statements in making a determination of whether audit firm rotation should be mandated. The objective of this study is to provide empirical evident relevant to perceptions of audit tenurship and the credibility of financial statements of banks in Nigeria.

1.7 Scope of the Study

This study will focus on some selected quoted banks in Nigeria within the period of 2016 to 2020

1.8 Limitation of the Study

The results of this study must be interpreted with certain limitations. The data used may not be representative of the entire population of quoted company in Nigeria.

First, the study uses only the financial statement of companies quoted on the exchange; therefore the results of this study may not be generalized to other users groups. Other limitations encounter are;

- i. **Time Constraints:** Due to academic work load and other commitment, it was not easy to have an intensive coverage on collection of data and more reviewing of relevant information.
- ii. **Financial Constraints:** Funds needs for transportation, buying of relevant stationeries, browsing, were of constraint to the researcher.
- iii. **Lack of co-operative attitude of employees:** Most of the employees were not willing to cooperatively answer questions being asked by the researcher thereby exhibiting a non-challant attitude of the researcher work, while others thought the researcher to be an audition whom has come to audit the firm

1.9 Definition of Terms

Audit: An audit of financial statements is an exercise whose objective is to enable auditors to express an opinion whether the financial statements give a true and fair view (or equivalent) of the entity's affairs at the period end and of its profit or loss (or income and expenditure) for the period then ended and have been properly prepared in accordance with the applicable reporting framework (for example

relevant legislation and applicable accounting standards) or where statutory for other specific requirements prescribe the term present fairly.

Integrity: This is required in order not to mislead those who will have belief in and rely on the audited financial statements.

Independence: In essence, an auditor must be objective express an opinion without fear or favour and avoid conflict of interest or undue pressures from any source.

Competence: An auditor must possess the required skill so as to be able to perform the examination of the financial statements.

Rigour: The auditor should be thorough in his work

Accountability: The auditor should act in the best interest of the shareholders in doing this; he should have regard to the interest of the public.

Judgment: By virtue of the auditor's training, he is able to apply sound professional judgment in many areas regarding the examination of the financial statements, Odion and Lawani (2009).

CHAPTER TWO: REVIEW OF RELATED LITERATURE

2.1 Conceptual Review

2.1.1 Audit Tenureship

Audit tenure is the length of time an audit firm has been auditing financial statement of an organization. A lot of debates have evolved in the academic literatures and accounting profession on the relationship among audit tenure and audit quality (Jenkins & Vermeer, 2013; Blandon & Bosch, 2015). The center of the argument is the issue of auditor's independence in the auditor-client relationship; which is the ability of auditors to maintain an unbiased position in performing their audit assignments, issuing audit opinion and ensuring high quality audit report (Odia, 2015). There have been two opposing views on the effects of audit tenure on audit quality. Some are of the view that as the auditor-client relationship lengthens, the auditor may develop a close relationship with the client and impair independence which will eventually result in poor audit quality and allows for greater earnings management resulting in lower earnings quality (Becker, DeFond, Jiambalvo & Subramanyam 1998; Lys & Watts, 1994). The other view is that as audit tenure lengthens, auditors increase their understanding of their clients' business and develop their expertise during the audit exercise and gain better insights into the clients operations and business strategies as well as internal control over financial reporting which will result in higher audit quality (Arens, Elder & Beasley, 2005; ling & Nopmanee, 2015).

Prior studies have recorded mixed result on the relationship of audit tenure and financial performance Lin and Hwang (2010) in their study, audit quality, corporate governance and financial reporting quality. Found a negative significant relationship between audit tenure and financial

reporting, hence the study posit that when audit tenure lengthens, earnings management reduces. It is, however, observed that though the study was conducted in a developed country, its time coverage stopped at 2007. The time coverage on the study may have excluded recent event within the context of earnings quality. However Augustine, Famous and Augustine (2014) in their study, audit quality and accrual based earnings management of quoted companies in Nigeria, found no significant relationship between audit tenure and accrual based earnings management which indicates that the length of time of audit client relationship does not have any effect on earnings management. This study, though conducted in the non-financial firms in Nigeria stopped in 2011; it could have not captured recent event in earnings quality. The study conducted by Mohammed (2016) on the impact of external audit quality on quality of financial reporting by banking firms in Jordan, found a negative significant relationship between audit tenure and financial reporting quality, indicating that manager ability to manipulate earnings is reduced when audit tenure is elongated. It is observe that the study use discretionary accruals from Jones model instead of loan loss provision as it has been established in the literature to be the most applicable in financial firms. Thus, study conducted using loan loss provision in that same sample may yield a different result. Audit quality is an important issue that is considered by various interest groups in the company, audit scope and capital market. Because audit quality is barely visible in practice, research in this area has always been faced with many problems of definition. One of the most common definitions of quality audit, which is defined by Di Angelo (1981), is the market assessment of the likelihood that the auditor (i) detect significant distortions of the financial statements or employers accounting system and (ii) report significant distortions.

2.1.2 Audit Fee

Researchers in different countries have gone into intensive research to find out the determinant of audit fee for example; Iyer, 1996; in Holland, 2002; Neimi, 2002; Simon & Taylor, 2002); in Australia(Francis, 1984; Francis & Stokes, 1986; Craswell, Francis & Taylor, 1995; Craswell & Francis, 1999;in Ireland: Haskins & Williams, 1988; Japan: in Taylor, 1997) ;in Norway: Firth(1997). In Jordan: Naser & Nuseibeh, (2007) and in Bahrain: Joshi & Al-Bastaki, 2000; Qatar: Kutob & Al-Khater, 2004; by Joshi & Al-Bastaki (2000), Naser & Nuseibeh 2007 and Kutob & Al-Khater (2004).All these studies are aimed at examining the factors that determines audit fee(firm characteristics like;size,profitability,firm complexity and firm risk). Determinants of audit fees can be categorized into two : client attributes (Auditee attributes) and auditor attributes. Auditee characteristics include ; of size, complexity, risk, and profitability of the firm being audited .Some Arthurs argued that , audit fee tends to increase with an increase in the client's *size* (Simunic 1980), *risk* (Stice 1991), *complexity* (Hackenbrack & Knechel, 1997), and *profitability* (Hay, Knechel & Wong, 2006). Audit company attributes include; Size, reputation, experience, competition, industry specialization and firm status .Extant literature opine that audit fee increases with the Audit firm's *Size* (Francis, 1984; Palmrose, 1986), *reputation* (Larcker & Richardson, 2004, Gonthier & Schatt, 2007), *experience*, *industry specialization* (Pearson & Trompeter, 1994; Craswell et al., 1995; Cullinan, 1998) and status (Palmrose, 1986; Francis & Simon, 1987; Butterworth & Houghton, 1995).

However, Hay et al.(2006) suggests that audit fee decreases with the increase in *competition*, the greater the number of competitors the lower the audit fees are charged .y the predicted effect of audit fees based on prior studies' findings and then based on this theoretical foundation, hypotheses

of the present study will be A lot of extant literature on the determinant of audit fee dating from the seminar article by Simunic (1980). . Siminic (1980) develops a pricing model in which the audit fee is determined by difference in loss exposure, differences in the accessed loss-sharing ratio, differences in auditor production functions, and auditor identity. He notes that the observation of a big premium, while in line with the existence of produce differentiated accruing to high reputation. Moreover, the potential existence of scale would off set both of these factors . Beginning with Siminic (1980), a number of studies have observed the market for auditing services in different nations of the world . Majority of these studies were performed in developed nations e , for example, palmrose (1986) Francis and Simon(1987), Simon and Francis, (1988) Turpen (1990). The United kingdom for example, Brinn et al (1994). Australia e.g Francis (1984), Francis and Stokes (1986), Crosswell et al (1995).

Another series of researches reveal that there a positive relationship between audit and non-fees .these studies include; Siminic (1984) , Palmrose (1986), Parkash (1986),Parkash & Venable (1993) and Divis, Recchiute & Trampeter (1993) in the US, Ezzamel, gwilliam and Holland (1997) in the UK, Barkess & Simnet (1994) in Australia, and Firth, (1997) in Norway. David (1993) on the other hand did not find a significant relationship, between non-audit and audit fees. In Nigeria Statement No.7 of Institute of Chartered Accountants of Nigeria(ICAN) professional codes of conduct for members make extensive provision for fee to be charged by chartered accountants. The conduct mandates auditors to charge specific and calculated fees agreed with the client on a fair and reasonable fee based on seniority and professional expertise, the degree of risk and responsibility, priority and importance of the work to be client, and expense properly incurred as well as the time necessarily spent on the work. Audit price estimates must sent to potential to client in writing before

to commencement of the engagement. The auditor should take care to ensure that the client have a full and complete understanding of the services to be covered by the fee and the basis on which the fee is determined both for current and future years. This guide line binds ICAN members only . Section 361 of CAMA stipulates that the remuneration of auditors may be fixed by the directors. However, in other cases, the auditors remuneration shall be fixed by the company at the annual general meeting or in such a manner as the company in its general meeting may decide. Remuneration in this context consist of auditors fees and expenses. It also provides that under no circumstance must the audit fee from an audit client constitute 25% or more of the gross practice income of an audit firm or gross earned income of a member.

2.1.3 Auditor Firm Rotation

From the auditor's independence hypothesis associated with auditor tenure in the auditor client relationship, the academics and accounting professions have debated and advocated that auditor rotation could help to maintain auditor's independence, objectivity and professional skepticism (Mautz and Sharaf 1961; U.S. Senate, 1976, Hoyle,1978; Bates et al, 1982, AICPA, 1992, 1995; Arrunada and Paz-Ares 1997; SEC, 1994; Vanaco, 1996; Pettey and Cuganesa, 1996; Dopuch et al, 2001; Hussey and Lan 2001; Gietzman and Sen, 2002, ICAEW, 2002, Healey, 2003; ICC 2005; PCAOB,2011).However, there is the argument whether the auditor could truly be independent in the auditor-client relationship given the pressure to maintain their stream of income in a mandatory rotation setting (Bazerman, Morgan and Loewenstein,1997). Auditor rotation includes audit-firm and audit partner rotation. The logic behind partner rotation is to bring in fresh perspective to the audit and encourage a "fresh viewpoint" which enhances the technical rigour of an audit (AICPA,1978, 1992; ICAEW 2002; Dopuch et al 2001; ICC 2005). Seidman (1939: 424) describes rotation as: "a

new auditor, like a new broom, will make a clean sweep and can pick up things not caught by the predecessor.” Basically, the researches of the effects of audit partner rotation on audit quality are mixed. For instance, Monroe and Hossain (2013) conclude that the implementation of mandatory audit partner rotation has improved audit quality because audit firms were more likely to issue qualified going-concern opinions for financially distressed companies following mandatory partner rotation. Hamilton et al (2005) and Fargher et al (2008) also report a positive association between audit partner changes and audit quality. Firth et al (2012) find mandatory audit partner rotation are associated with higher modified audit opinion proxy for audit quality especially for less developed regions. But Carey and Simnett (2006) report a significant negative association between mandatory audit partner rotation and audit quality when the tenure is more than seven years. Again, Chen et al (2008) and Chi et al. (2009) find that audit quality deteriorates after partner rotation using discretionary accruals as a measure of earnings quality in Taiwan Bae, Kallapur and Rho (2013) argued that auditor rotation could affect audit quality in the following ways: (1) Long tenure might induce complacency among auditors and make them identify with the client, reducing their independence and could result in stock option backdating (Ouyang and Wan, 2013) (2) Mandatory rotation could keep auditors on their toes since they know that their work will be reviewed by a fresh pair of eyes.(3) Mandatory rotation might create a misalignment- if there is a single auditor best suited for a client, then the client has to forego that auditor’s services and settle for another less-well-suited auditor when subjected to mandatory rotation (Pitt 2012:20). (uniquely-well-suited-auditor argument) and (4) Rotation could affect audit market concentration and competition, which in turn might affect audit quality.

Mandatory rotation could also affect audit quality through its effect on the audit market structure and the increase or decrease in the choice of qualified auditors for clients (Bae et al,2013). It was argued by the Metcalfe commission (1977) that rotation will allow more audit firms to enter the market thereby expanding the choice available to clients. However, excessive competition may be bad and mandatory rotation may worsen the problem (Cohen Commission, 1978).Mandatory rotation eliminates the expectation of a continued stream of revenues and thereby liberates auditors from the pressure to bend to clients' will to prevent the loss of the revenue stream (Bazerman, Morgan and Loewenstein 1997, PCAOB 2011), decreases the penalty for loss of reputation, gives retiring auditor the incentives to clean up before they are rotated out. However, Pitt (2012) pointed out that auditors will slack off and have lower rather than higher incentives to maintain audit quality if they lack any expectation of continued revenues. In fact, the decline in effectiveness of the old auditor is linked to familiarity with with clients, less willingness to challenge them and escalation of commitment (Bazerman, Loewenstein and Moore.2002) Following the financial reporting scandals and collapses in the United States, there have been calls for mandatory auditor rotation to reduce the possibility of fraud (SOX Act 2002, GAO, 2003; NYSE,2002, TIAA-CREEF, 2004). Also, it has been argued that auditors will be in a stronger position to resist management pressure and be independent and exercise more objective professional judgment if there is mandatory rotation (Brody and Moscovice,1998, Chung, 2004). Wolf et al (1999) suggested that to maintain auditor's independence and objectivity, audit firms should periodically relinquish their clients. However, only a selected countries and oversight boards have implemented mandatory audit partner or audit-firm rotation such as: Italy (1974), Brazil (1999), France (1998,2003), Spain (1989), Singapore (2002), China (2003-2005), United Kingdom (2003), Austria (2004), South Korea (2006), and Canada (before 1991). Austria and

Canada abandoned mandatory rotation in 2005 and 1991 respectively (Cameran et al, 2005). By July 2003, mandatory rotation of audit partners for all public companies was being considered by Canada's securities regulator (GAO, 2003). Bae et al (2013) argued that Spain announced but never implemented mandatory rotation. Carrela et al (2007) argued that at no stage was mandatory rotation of audit firms ever enforced on Spanish auditors but the whole gimmick was a politicized process. The reasons for abandoning the requirements for mandatory audit firm rotation in Spain and Canada were related to its lack of cost-effectiveness, cost, and having achieved the objective of increased competition for audit services. In Japan, the Amended Certified Public Accountant Law was passed in May 2003, and beginning on April 1, 2004, audit partners and reviewing partners were to be prohibited from being engaged in auditing the same listed company over a period of 7 consecutive years. In Netherland, the maximum period for rotation of the engagement audit partner was reduced from 7 years to 5 years while the maximum period for rotation of the other key audit partners is 7 years. There is presently no limit period for the rotation of the audit firm or partner in Nigeria.

2.1.4 Auditor firm Tenure

Previous investigations have exposed that audit firm tenure exhibit an important relationship with financial reporting quality. This relationship appears to be negative or positive. For example, Watts and Zimmerman (1983) discovered that as audit tenure get longer, the extrareliance on the auditee. Previous investigations have exposed that audit firm tenure exhibit an important relationship with financial reporting quality. This relationship appears to be negative or positive. For example, Watts and Zimmerman (1983) discovered that as audit tenure get longer, the extrareliance on the auditee.

The main argument has been whether the length or duration of audit firm with a client affects the quality of the audit (Mautz and Sharaf, 1961; U.S Senate, 1976; Shockey 1981; Lyner and Roma; 2004). The argument is conflicting. While some researchers argued that longer tenure (5-10 years) decreases audit quality because of the impairment of auditor's independence (auditor independence hypothesis), others believed that longer tenure improves audit quality through learning (expertise hypothesis).Azizkhani et al (2006) posit that the auditor's independence incorporates three different arguments as to what audit quality might decrease as auditor tenure increases. These include auditors may: (1) create economic dependence on the client which may impair auditor's independence (DeAngelo 1981a, 1981b; Magee and Tseng, 1990; Raghunathan et al, 1994) (2) develop a learned confidence in the client (familiarity threat) which may result in auditor not testing financial assertions (Hoyle,1978; Shockley,1981) (3) psychological dependence or the development of personal relationship to the extent of developing bonds of loyalty, trust or emotive relationships (Arel et al, 2005). The auditor's expertise hypothesis is based on information asymmetry in the auditor-client relationship. This reduces over time as the auditor acquires more knowledge of the client which helps him/her to detect material misstatement in the financial report. It implies that audit quality is lower during the early years of the auditor-client relationship and the quality increases as the length of auditor tenure increases due to reduction in the information gap between them (Beck et al 1988, Solomon et al, 1999, Geiger and Raghunadan 2002). Auditor tenure has two dimensions: the tenure of the audit-firm and the tenure of the individual partner engaged in the audit, particularly the engagement partner. More emphasis has been focused on the audit-firm tenure because of the difficulties in identifying the engagement partner. Empirical evidences of the effects of audit-firm tenure on the audit quality are mixed and conflicting (see table 1) .While some of the studies reports

that audit quality decreases with increased audit-firm tenure, others like Casterella et al., (2002), Davis et al (2002), Johnson et al (2002), Myers, Myers, and Omer (2003), Ghosh and Moon (2005), Choi and Doogar (2005) and Gunny et al (2007) report a positive relationship. Basically, most studies found that audit failures are more likely to occur with short audit-firm tenure of between 2-3 years (St.Pierre and Andersen, 1984; Stice, 1991; AICPA, 1992; Raghunathan et al., 1994; Walkel et al., 2001; Geiger and Raghunathan, 2002; Carcello and Nagy 2004, Gul et al, 2006 & 2007). Similar empirical researches on the effects of long audit tenure of the engagement audit partner on the audit quality produce mixed and inconclusive results (see Chen et al, 2004; Chi and Hong, 2005; Cary and Simnett, 2006). While some studies show positive association between audit partner tenure and audit quality measured by discretionary accrual (Manry *et al.* 2008, Chi et al., 2009; Chen et al., 2010), others recorded a negative association (Carey & Simnett, 2006; Hamilton et al., 2005; Fargher et al., 2008). Equally, there are mixed and conflicting results on the empirical relationship between auditor's tenure and board rating, earnings management, earnings response coefficient, nature of audit opinions issued, frequency of restatements of financial statements and cost of debt.

For instance, Myers et al (2003) found that accruals (proxy for earnings management) decrease with auditor tenure whereas Davis et al (2002) also using accruals arrive at different conclusion. Also, Vanstraelen (2000) found long auditor tenure significantly reduces auditor's willingness to qualify audit reports whereas Geiger and Raghunandan (2002) found the opposite. Myers et al (2005) stated that the relationship between auditor tenure and the propensity for restatement could be positive or negative and they concluded the evidence provided no clear support. Ghosh and Moon (2005) found that earnings response coefficient increases with the length of audit firm tenure, consistent with earnings being greater as auditor tenure increases. They also found that

the influence of earnings on Standard and Poor (S& P) stock rating increased with the length of audit firm tenure. They found no evidence of audit firm tenure impacting on the influence of earnings on S & P debt rating unlike Mansi et al (2004) who found that increasing auditor tenure is associated with higher S & P debt rating. Gul et al (2009) examined whether industry specialization of auditors and low balling effect affect the association between auditor tenure and earnings quality. They found that the association between shorter auditor tenure and lower earnings is weaker for firms audited by industry specialists compared to non-specialists. Crabtree et al (2006) examined newly issued bonds in the period 1990 and found that auditor tenure was positively related to ratings received. Brandon and Mueller (2002) investigated whether jurors' judgments of auditor's blameworthiness are influenced by the length of auditor's tenure with a client. They found that longer tenure has a positive impact on perception of competence but a negative impact on perception of independence. Therefore, from a litigation perspective, the auditor's tenure with a client is a double-edge sword. Ruiz-Barbadillo et al (2008) examine whether long-term audit engagement improves quality of the service or increase the possibility of a company engaging in opinion shopping. They found that the longer the audit engagement, the lower the probability of opinion shopping.

2.1.5 Recent Regulatory Issues on Audit Rotation

The AICPA (1978) practice section requirement for mandatory partner rotation In the US, was every seven years. But the Sarbanes Oxley (SOX) Acts of 2002 required the lead audit partner and audit review partner to be rotated every five year for public companies engagement. Again the US House of Representative introduced the integrity or job protection bill during the first session of the 113 US congress in 2013 to amend the SOX Act of 2002 which prohibit the PCAOB from requiring public companies to use specific auditors or require the use of different auditors on a rotating basis. It

is seven years in the UK for listed companies. Formerly rotation was not longer than seven years in Australia but it is now five years or less since 2004. In April, 2014, the European Parliament voted in favour of new rules (proposal of 2011) to force European companies to hire new auditors at 10 - to 24-year intervals. This new rule extends the six years period of mandatory auditor rotation proposed in 2011 with a cooling period of four years (Chasan, 2014).

2.1.6 The Effects of Audit Firm Rotation (Voluntary and Mandatory) on Auditor's Independence and Audit Quality

Mandatory audit rotation has been suggested as a means of strengthening independence, reducing the incidence of audit failure and improving the quality of audits. However, there are research evidences that show rotation increases audit costs and prices, reduces auditor incentives to invest in specific industries, destroys the knowledge of client companies that an audit firm usually accumulates over a period of years and distorts the competition in the market (Cameran et al, 2005).It has been argued by academic researchers that attempts to achieve increased independence through mandated rotation of audit firms was likely to have other unintended and undesirable consequences (Ball, Glover, Jamal, Kasam, Kouri, Paterson, Radhakrishnan and Sunder, nd). Harris and Whisenant (2012) investigate the debonding effect of a mandatory rotation policy (that is the goals of rotation rules enhancing auditor's independence in an audit market) and the low client specific knowledge effect (audit quality before and after mandatory audit rotation).They conclude that although the quality of audit market appears to improve on average from enactment of mandatory rotation rules, there were evidence of lower audit quality in both years.

Over the recent decades, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) have set standards that de-emphasize verifiability in

favour of the mark-to-market valuation, no matter how illiquid the market may be. It has also adopted a practice of writing detailed standards in its attempt to close loopholes but ends up creating new ones. These have made the auditors work more complex. Thus mandating audit firm rotation at the expense of other determining factors of audit quality would be a bad policy and may impair auditor independence, weaken audit expertise, undermine corporate governance and impair audit quality. This supports the survey findings of Fortune 1000 public traded companies by the GAO in 2003 that mandatory audit firm rotation may not be the most efficient way to strengthen auditor independence and improve audit quality considering the additional financial costs and the loss of institutional knowledge of the public company's previous auditor of record as well as the current reforms being implemented. Church and Zhuang (2006) developed a theoretical model to prove that mandatory rotation is preferable if rotation period is long, start up costs are high, cost of biased report is high, auditor learning is dramatic in improving audit efficiencies and the manager is myopic (focused on short-term payoff). According to Cameran, et al (2008), most of the studies on audit firm rotation were performed under a voluntary rotation regime or under a "forced rotation setting" and the findings showed that audit quality may or may not appear to deteriorate with or immediately after the auditor change. Using Italy as one of the countries where mandatory audit firm rotation has been effective for over twenty years, their findings support that (1) audit quality tends to improve rather than worsen over time and (2) comparing the effects of voluntary and mandatory auditor's change on audit quality, they found that while a voluntary change tends to improve audit quality, a mandatory change dampen quality. In fact, they found no evidence of any beneficial effect of mandatory audit firm rotation on audit quality. Similarly, Morrill (2008) in analysing various studies on auditor rotation came to the conclusion that audit-firm rotation does not improve audit quality but that the

audit quality seems to deteriorate when the auditor is replaced. It is argued that differences in audit quality under the two regimes may be consequent of the auditor's perceptions and motivation. This may affect auditor's incentives in performing audit activities especially in mandatory audit rotation (Magee and Tseng, 1990, Ghosh and Moon 2005; Cameran et al, 2008). Cameran et al (2005) review the findings and conclusions of 26 reports by regulators or other representative bodies from around the world. Of the 26 reports, 22 concluded against the benefits of mandatory audit-firm rotation and while only 4 were in favour. These four are: Assirevi (Italian Association of Audit Firms), the Galgano Commission, Monetary Authority of Singapore (MAS) and the US independent Conference Board and Galgano Commission are in Italy where firm rotation is mandatory for some companies (i.e. all listed companies). Moreover, in Singapore (area of influence of MAS), the same rule is effective for incorporated banks. The study also considered 34 academic studies which comprised 9 opinions and 25 empirical-based evidences. The majority did not support mandatory audit firm rotation. They found that studies based on empirical evidence had a larger majority against firm rotation (76%) than opinion based studies (56%) (Cameran et al,2005). Elitzur and Falk (1996) model proposed that when total auditing engagement is known and finite, the level of planned audit quality will decrease over time and the level for the last period is the lowest. However, the model did not consider the reputation effects of an audit failure which may have significant impact on the auditor's future payoffs from other clients and the learning process which can lead to improved audit quality, independent from the existence of a finite engagement time (Carcello and Nagy, 2004, Geiger and Raghunandan,2002, DeAngelo,1981). Also, it has been suggested that decrease in audit quality may be consequent of an auditor becoming less independent from the client's firm and getting into a closer relationship with the managers (Brody and Moscove, 1998).

Many of the studies do not support auditor rotation as it eventually leads to decrease in audit quality if new auditors takes over (Geiger and Raghunandan,2002; Myers et al 2003; Johnson et al 2002; Carcello and Nagy, 2004; Mansi et al, 2004; Ghosh and Moon; 2005).However, the following studies support auditor rotation, in that they perceive new auditors are better then long-term auditors- Hamilton et al (2005) by using unexpected small, signed and positive accruals; Carey and Simnett (2006), in meeting or beating earnings bench marks; and Gate, et al (2007) found confidence in financial statement increased following rotation; Gietzman and Sen (2002) found that if the audit market is thin mandatory rotation increases the independence and risk of collision.Nagy (2005) found insignificant relationship between short audit tenure and discretionary accruals for small US companies. Vanstraelen (2000) found long-term relationship leads to unqualified report. The findings of Knechel and Vanstraeelen (2007), Blouin, Grein and Rountree (2007), Johnson et al (2002) when they used persistence of accruals as measure of audit quality were neutral; that is, neither support or refute rotation. Firth et al (2012) examine the the effects of the various forms of audit rotation on audit quality find that firms with mandatory audit partner rotations are associated with a significantly higher likelihood of an modified audit opinion (MAO) than are no rotation firms in China. They find no evidence that other forms of auditor rotation (i.e., mandatory audit firm rotation and voluntary audit partner rotation) have an effect on the issuance of a MAO. Overall, they document a positive effect of mandatory audit partner rotation on audit quality in regions with weak legal institutions but fail to find robust evidence that mandatory audit firm rotation is significantly superior to other forms of auditor rotation. The stock market seems not to value auditor's rotation (SDA,2002). In fact, the market reacts more strongly to earnings audited by long-term auditors than new auditors. This suggests that auditor retention improves the perceived credibility of earnings and financial reporting

(Ghosh and Moon,2005).The number of lawsuits has been found to increase with new engagements (St Pierre and Anderson, 1984).

2.1.7 Cost Benefit Analyses of Auditor Rotation

In answer to the question regarding cost-benefit analyses of auditor rotation, Person X replied that due to auditor rotation the initial costs would be higher than the benefits. The costs would be higher because you have to provide the new auditor with the information from the scratch, and as it will take longer the company would be supposed to pay more to the auditor. The benefits would be only that the firm would get fresh and new views from the new auditor. Henrik Bergdahl, in his reply to this specific question answered that during the first year of auditor rotation it gets very costly for the firm, because the auditor has to learn everything about the company from scratch. The only benefit during the initial years could be that the new auditor would have a thorough examination of the firms, and would even look into those information heads, which the existing auditor used to skip due to his confidence over it, resulting in a fresh insight into the firm.

Carl Rehnberg said that he does not see many benefits of auditor rotation other than this that the credibility would increase due to the involvement of a new auditor. There is no need to rotate the audit firm as a whole; even if the auditor within an audit firm is rotated it would still serve the purpose. According to Kjell Hedström, the benefits for the client firm are that the price of the audit goes down when you hire a new auditor, and as the relationship builds the price of the audit tends to rise up again. So for the client firms it is a good option to rotate the auditors as it lowers the price for the audit.

2.1.8 Role of Auditor and Audit Quality

Success of audit in reducing material misstatements: The purpose of an audit of financial statements is to facilitate the auditor to articulate an opinion whether the financial statements are primed, in all material respects, in accordance with an applicable identified financial reporting framework. The long-term relationship of client and auditor is also vital for the success of an audit in reducing the material misstatements. The success of an audit depends upon the good knowledge of the client-firm and as we explained above long tenure client auditor relationship builds enormous knowledge, familiarity, skill and understanding for both parties. However, it can be manifest from auditor's audit engagement in different business and industries. It means he should hold command in all those critical area of firm that might be open to the risk of material misstatements.

Uniform level of audit quality over the years: The opinion of the respondents regarding uniform level of audit quality is the same i.e. it is not gained through long tenure relation. If the members of the audit team were recruited annually then there would be some uniformity in the levels of audit quality. In long tenure there might be decline in audit quality after the span of 7 – 10 years, and might not remain the same. In contrast the procedures, tools and techniques used during the auditing are fundamental for uniform level of audit quality.

Role of audit-firm size and brand-name in maintaining audit quality: All respondents are agreeing with theory that audit-firm size and brand-name definitely matters in maintaining the audit quality because big audit firms have a lot of resources which small/local audit firms don't have and through these resources they develop tools and technologies that facilitate in improving the audit quality.

Audit quality during the early years of audit engagement: In the early years of audit engagement the audit quality would be lower due to lack of knowledge about the particular client's business. Conversely, the audit is conducted with much spirit, passion and enthusiasm because auditors are eager about the new audit engagement and this might cause improving audit quality.

Auditor reputation in terms of perceived competence and perceived independence: Auditor reputation and auditor independence are important factors for audit quality. An auditor should be independent both in appearance and in reality and this would surely fortify the audit quality, and vice versa. The Swedish law affirms that an auditor should be independent and could not own the shares in the company which he is going to audit. The opposing view is that some firms do not provide much importance to the auditor reputation, because of the high prices charged by the highly reputable auditors.

Effects of audit on the information credibility and information quality: An audit definitely influences the information credibility and information quality of financial reports because the review and feedback of auditors on the client's annual report would increase information credibility and information quality. The need for the credibility and the quality of information grows with the size of the firm.

Perception of investors and information intermediaries about long-term relationship: The investors and intermediaries do not pay much attention towards long-term relationship of clients and auditors because they don't need to know who has been auditing the client firm and who has signed the audit report. Whereas in case of credit rating agencies long-term auditor-client relationship is considered good sign for both the rating and the higher audit quality. The regular auditor rotation by a

firm creates uncertainty for credit rating agencies that something is wrong with the firm and for that reason they are trying to change the auditors.

Overcoming the issues of agency problem due to long-term relationship: In small firms the ownership and the management is same thing, and that is why an audit does not create any difference. The other thing is that the auditor meets and reports only to audit committee and managers not the owner of firm. Thus it would not be true to say that an audit could help in completely overcoming the issues of agency problem.

2.1.9 Reasons for an Audit Failure and its Consequences

The basic and common reasons for audit failures are incomplete information, unclear scenario and poor planning. These are the main factors involved to perform an audit effectively and efficiently. Due to lack of information about client firm and in rare cases hiding information from clients' side are the causes of audit failure and create difficulty for the auditor to calculate the risk of the client firm.

For the success of an audit, client firm should always show the complete information to the audit firm instead of hiding something which may be a cause of failure and create difficulties in auditing process. In the consequences of the audit failure mostly an auditor is being sued due the issuance of wrong audit opinion on financial reports of the firm and the audit firm will need to use the insurance to cover its mistakes within the audit engagement. Apart from those governmental organizations investigates the audit engagements and in case of frauds and failure to adhere to the audit rules and regulations the auditors' license might be cancelled as well. And in most of the cases the clients feel hesitated to work with the auditors who have bad reputation.

Role of Internal Control in Ensuring the Audit Quality

The main role of internal control is to keep track of firm's routines which help the auditors in doing their audit and in some cases might provide better figures than external auditors. It provides instant figures which make the decision making more proficient and helpful to calculate liquidity on daily basis. It also plays a crucial role in ensuring audit quality by controlling and correcting much of the firm's financial information before an external auditor checks it.

2.1.10 Advantages and Risks of Mandatory Rotation

Internal and external rotation is often considered a way to enhance audit quality due to a prevention of the auditors depending relationship with the management, distinguishing between the auditing of capital market oriented and non-capital market oriented corporations. Since traditional agency conflicts are characteristic in large management operated corporations, the necessity of a statutory, rotation is solely related to this group of companies. Shareholders in a public company this dichotomy auditing standard has recently been contemplated by the EC in their regulation draft. Robert (1967) presents a fundamental approach to the economic impact of auditor changes. Although considering the assistance role of an auditor in a stock corporation a long term contract between board and auditor seems sensible the independence in appearance might be limited to a special trust relationship between management and auditor in a long term assuagement. They suggest that personal relationship between auditors and management, the combination of auditing and consulting as well as the auditors goal of maintaining the assignment are determine factors towards reducing audit quality. According to DeAngelo(1981) a quasi rents according to low baling without compulsory relation might present a finical incentive to the auditor to give up his independence, if the probability of exposure by the capital market is considered to be low, according to supporters of this theory, an

auditors low balling straggly which might be related to his lack of independence can be counteracted by compulsory rotation, (2004) do not agree with this opinion buy state an adverse effect on independence in fact due to rotation under the existence of quasi rents and assignment by the owners. They point out that the auditor would give up his independence in the last audit period before the rotation because he assume hidden transfer of the management since he no longer has to be concerned about the loss of qua.si rent due to shredders not being re-elected.

According to Bigus and Zimmermann (2007), the absolute client related, but not necessarily the relative quasirates are cut short due to rotation, which implies that rotation dies not necessarily cause an increase of auditor independence, irreconcilable difference of option between management and auditor are not risky to the auditor if a change is scheduled for the near future any way which is mentioned as another possible advantage. Literature assume stricter and more relentless auditing under compulsory rotation. Considering that the auditor wishes to diminished the risk of having his success complain about his low performing upon review of previous year's audit finally avoidances of organizational blindness under compulsory rotation is point out, as negatively influencing the auditor efficiency even under observation of independence. Hence the auditors simply trust his result from previous years instead of anticipating important changes in the company development and adjusting his auditing strategy.

Risks

The positive effects of compulsory rotation on the limitation and avoidance of low balling as mentioned in literature are not secured. Since compulsory rotation creates system, moment disadvantage thus a changes of auditor incurs a higher monetary value of auditing cost and increased audit fees which result in additional cost of the initial audit and transaction cost on the part of client.

Especially long term audit scheduling and following up on complaints or auditors suggestion from previews audit period would have to suffer under rotation. Empirical survey in the US Shows that the auditors risk of liability is significant higher in first or second audit than in- following audits (AKP 1992). Since first audits tend to be of lower quality, negative response of the capital market are to be expected upon a forced changes of auditor. This way an investor can no longer distinguish a voluntary changes of auditor due to opinion shopping of the management from a compulsory rotation, which increase his cost of information (Bigus & Zimmerman, 2007). Therefore, for corporations which aim to offer high audit quality to the capital market, compulsory rotation in short intervals may be unfavorable. Even a statutory long-term rotation cycle (e.g more than nine years) cannot prevent the risk of hidden intention of management.

Audit market concentration is another important disadvantage of compulsory, rotation, which the critically review. The European audit market for listed companies is dominated by the big four audit firms. The reason for this concentration is in the big four companies having the ingest experience value in auditing capital market oriented enterprise, according to De Angelo (1981b) they are related to a higher quality and independent, and have an extensive potential of resources in additional performances such as advisory services to show. This development of oligopoly in the global audit makes an entry into the market very the audit firm (internal rotation) or between big four audit companies (external rotation). Further more practical experience suggests frequent changes from small to large audit companies. In general view, the above mentioned impacts under rotation by changes of the audit company as opposed to a change of auditor within the company are stranger. The overall impact of compulsory rotation is, from theoretical point of view, not explicit, therefore, even with the auditor applying low balling, a rotation does not necessary imply higher quality but the

interruption or shortfall of leaning and experience effects can have an altogether negative effect on the quality of financial accounting and audit. External audit position within the basic corrupted governance strictures (without dedifferentiation between the orienteer and two-tier board).

2.1.11 Factors Affecting Audit Quality

The quality of financial reporting has to be maintained in order to ensure some measure of credibility on the information contained in it. Some of the factors affecting audit quality include financial literacy of audit committee members; frequency of audit committee meetings; multiple directorship of audit committee members; independence of audit committee members; external auditors' quality; and interaction between independence of audit committee and external audit.

Financial Literacy of Audit Committee Members: According to Song and Windram (2000), a high degree of financial literacy is necessary for an audit committee to effectively oversee a company's financial control and reporting. The role of an audit committee in overseeing accountability of the management covers a wide scope to include the overall process of corporate reporting. This requires the audit committee to have accounting knowledge in order to acquire an in-depth understanding of financial reporting and improve compliance with regulatory requirements. The need to comprehend the overall financial and non-financial contents of corporate reports is greater considering that listed companies are operating as conglomerates with some having complex group structures and therefore, presenting technically advanced financial reporting contents. Financial literacy reduced fraud in corporate financial reporting. A formal recognition of this requirement was recently made in the U.S. with the passing of the Sarbanes-Oxley Act (2002) which requires each public listed company to disclose whether or not it has a financial expert in the audit committee.

Frequency of Audit Committee Meetings: The effectiveness of audit committee depends on the extent the Committee is able to resolve issues and problems faced by the company and to improve their monitoring function of company activities (Abbott, Park and Parker 2000). A more active audit committee is expected to provide an effective monitoring mechanism. The more frequent the audit committee meets, the more opportunity it has to discuss current issues faced by the company. Since the level of audit committee activity reflects good governance, it should enhance the exercise of oversight function and hence, audit quality. The Code of Corporate Governance states that the provision of an institutionalized forum encourages the external auditor to raise potentially troublesome issues at a relatively early stage. As a best practice, audit committee meeting should be conducted at least once a year without the presence of executive board members. However, the total number of meetings depends on the company's terms of reference and the complexity of the company's operation's operations. At least three or four meetings should be held in addition to other meetings held in response to circumstances that arise during the financial year (Finance Committee on Corporate Governance, 2001). Although the number of meetings may not provide an effective monitoring mechanism, it is noted that an audit committee without any meeting or with small number of meetings is less likely to be a good monitor (Menon and Williams, 1994).

Multiple Directorship of Audit Committee Members: This refers to the number of director positions held by audit committee members (Shivdasani, 1993)). Song and Windram (2000) argue that multiple directorship may cause limitations of time and commitment for audit committee members from performing effectively. Audit committee members who held directors' posts of too many companies may have limited time fulfilling their responsibilities. In Malaysia, the importance of experience of audit committee members gained through director positions in other companies is

evident in the Ruzaidah and Takiah (2004) study. They argued that multiple directorships of audit committee members was found to have significant positive relationship with corporate social reporting practices and corporate performance. This suggests that audit committee with multiple directorships provides an effective monitoring mechanism.

Independence of audit committee: It is an essential factor for an audit committee to ensure that management is held accountable to shareholders (Blue Committee 1999, Cadbury Committee 1992 and Treadway Commission 1987). The Code of Corporate Governance states that the majority of audit committee members must be independent and the chairman should be an independent non-executive director. It enhances the effectiveness of monitoring functions. It serves as a reinforcing agent to the independence of internal and external auditors. It is posited that the more independent the audit committee, the higher the degree of oversight and the more likely that members act objectively in evaluating the propensity of the company accounting, internal control and reporting practices. This indicates that an independent audit committee is able to help companies sustain the continuity of business although when they are faced with financial difficulties, they are expected to propose certain action plans to mitigate the problem.

Interactions between independence of audit committee and external audit: External auditors, through their interactions with audit committees are able to influence the company's internal control strength as well as reporting quality (Goodwin and Seow (2000)). The audit committee is expected to deal with the appointment and dismissal of external auditors. The Code of Corporate Governance (2001) spells out that it is the responsibility of the audit committee to discuss with the external auditors the nature and scope of audit before the audit starts and to review the findings of the audit subsequently. Such linkage is expected to produce an interaction effect between the external auditors

and audit committees. The negative relationship between independence of board of directors and discretionary accruals is being weakened by the audit of non-Big 5 firms. (Klein,2002). The finding suggests that negative relationships between discretionary accruals and independence of board of directors and the board financial literacy respectively are stronger for the companies audited by Big 5. This is because the control by independent board of directors and financially literate audit committees becomes more important when the companies do not get quality audit.

Audit-Firm Tenure: For effective and quality financial reporting, the audit-firm tenure is also considered because it is of great influence. Audit-firm tenure is the length of the audit-firm-client relationship as of the fiscal year-end covered by the audited financial statements. Following prior research (e.g., St. Pierre and Anderson 1984; Stice 1991), audit tenure is defined as short when the same auditor has audited the financial statements of a company for two or three years. Audit tenure is defined as long when the same auditor has audited the financial statements of a company for nine or more years. On the basis of definition of short and long term tenure, we define audit tenure as medium when the same auditor has audited the financial statements for four to eight years.

2.2 Theoretical Review

2.2.1 Agency Theory

The model of the paper is premised on the agency theory where an agency relationship occurs when one or more principals engage another person as their agent to do a service at their behest. Notably, such an arrangement may result in the delegation of accountability by the principal which necessitates the placement of trust in an agent to act in the principal's best interest Jensen and Meckling (1993). This lead to conflict of interest between the managers and the shareholders that the need for an auditor.

The agency theory is the core of the contractual view of a firm (Schleifer and Vishny, 1997). It displays the problem of separation of management and ownership. In the agency problem, the central role of information asymmetry between management and shareholders explains the need for external auditors. The principal-agent theory, in which the best interest of the principals and agents can conflict, displays the possibility that the agent (management) does not act in the best interest of the principals (shareholder) (Eisenhardt, 1989). The information asymmetry becomes problematic when Managers use this asymmetry to their own advantage and take actions that are at the expense of the shareholders (Ndfor et al.,2013). For example, Managers do this to ensure their compensation (Imhoff, 2003). As mentioned in the introduction, Enron is the example that displays this problem. Management of Enron were rewarded with stock option which aligned their interest with the shareholders but it also created incentives for managers to think in short-term which made the company fail over the long-term (Healy and Palepu,2003). Financial reports of companies are means for management to provide the users of those reports the right information of the company (Healy and Wahlen, 1999). Because of the conflict in interest between managers and shareholders, it is necessary that financial reports are independently Audited by an external auditor. Audits should provide assurance on the financial reports that companies produce. There is an important role for accounting and auditing in the principal –agent relationship (Eilifsen et al.,2015). Healy and Palepu (2003) suggest that auditing is critical to the functioning of the capital markets. From the shareholder perspective, it is important that management of firms are being held accountable because evidence suggests that managers would rather protect their own interests rather than to protect the interest of shareholders (Schleifer and Vishny, 1997).

Verification of the financial reports by the auditor results in credibility and reduction of information risk. Information risk is the risk that reported information by a company's management is misleading or false (Eilifsen et al., 2015). However, financial scandals and financial reporting failures have led to the questioning of the effectiveness of audits and the independency of external auditors. Mandatory audit firm rotation should contribute in recovering the perception of auditors and the usefulness of financial reports.

2.2.2 stakeholder theory

Stakeholder theory. Freeman (1984) noted that stakeholder theory is to address norm and values of the business ethics and managing the organization. The concept of this theory "stakeholders" refers to managers, shareholders, financial analyst and other users of financial report either indirectly or directly. The basic ingredients of stakeholder theory is to identify all groups of individuals state, organization and companies in which the firm operates and how beneficial the firm to the corporate society (Anhier, 2005). The agency and stakeholder theory viewpoint of financial reporting quality reveals that there are various element should be assured as having the prevailing influence on financial reporting quality as portrayed in the study as audit tenure. This requires that different stakeholder should critically examined their actions so as to determine the influence of their action and their effect on the perception of financial reporting quality reason be that audit provide assurance to stakeholders, shareholders, managers, creditors and other investors enhancing confidence on financial reporting quality.

2.2.3 Audit Quality Theory

Audit quality and perceptions of audit quality have been considered as two different concepts by Watkins, Hillison and Morecroft (2004). In order to keep the distinction between these two

concepts Watkins et al. (2004) uses factors like “monitoring strength” and “reputation” to refer to the actual and perceived audit quality. The monitoring strength helps in influencing and maintaining the quality of information in the financial statements, whereas the reputation of auditors can influence the credibility perceived by the stakeholders regarding the auditors. The auditors monitoring strength can be measured via the components of audit quality which are auditors’ degree of competence and independence. The same degree of competence and independence of auditors’ measured as components of audit quality from the perception of market then it would refer to auditor reputation. Auditor reputation is difficult to observe or measure due to the fact that they are based on the users’ beliefs. The audit quality framework presented by Watkins et al. (2004) captures the relationship between audit quality components, audit quality products and the influences over the information in financial statements.

The two products of audit quality which are influenced by the components of audit quality are information credibility and information quality. Variations in the auditor monitoring strength can be reflected in the financial reports in the form of trueness in the economic circumstances of the client firm. Thus, auditor monitoring strength in a way reduces the differences between the economic circumstances reported by the client and the true but unobservable economic circumstances of the client firm. The credibility of information or the reliability of information is impacted by the perceived reputation of the auditor. Auditor reputation is considered to be consistent over the period of audit engagement while audit monitoring strength may vary over the period of audit engagement. The relationship between audit quality and either demand drivers (client risk strategies and agency conflicts) or supply drivers (audit fees and auditor risk management strategies) has been presented in the framework of audit quality presented by Watkins et al. (2004). Watkins et al. (2004) has

summarized the client risk strategies which is one of the demand drivers of audit quality, that high-quality information is signaled by the companies by demanding auditors with highly-acclaimed brand-name. But this may not be the case for risky clients, for whom both the demand and the ability of signaling high-quality information is being mitigated by the pricing of the brand name audits.

2.2.4 Theory of Relationship Marketing

The theory of relationship marketing describes that the long-term relationship between the buyer and seller has the potential to bring benefit to both parties. In the audit firm context, the organizational auditor-client relationship is essential marketing tool for them to sustain existing service and promote cross-selling (Clark and Payne, 1994). Additionally, it also reduces costs for example setup costs can be amortized over a longer customer lifetime. The value-adding solutions and reduced set-up costs are generally benefits from the auditees' point of view. These benefits mainly persuade the auditee's willingness to purchase NAS from current audit firms (Clark and Payne, 1994). The continuity of relations dictates that sellers become more knowledgeable about their customers' requirements, desires and needs, which in turn permit them to modify their services to accomplish the finest result. As such, it is typically normal that clients have more conviction in getting a value-adding solution from those suppliers who have demonstrated a steady capability and reliability through past transactions. From the auditing perspective, previous research has acknowledged that the knowledge and trust enlarged from prolonged audit firm tenure is decisive to the audit process (Ghosh and Moon, 2005, Myers, Rigsby and Boone, 2007).

This reason can be logically extended to NAS. Like other personalized services, NAS necessitates a profound and intense awareness of the clients' business before it can truly add value to their business. An auditor-client relationship builds up specific belongings with the passage of time that are

fundamental to the competence of the audit firm, and more prominently, it builds up the clients trust in the audit firm's ability to provide such NAS. The latter one straightforwardly sways the client's willingness to procure NAS from current audit firms (Ye, Carson, and Simnett, (2006)

2.3 Empirical Review

The collapse of banks and corporation in Nigeria has drawn the attention of the public and regulatory agency to question audit quality. Banks in Nigeria are regulated by different agencies in Nigeria like: Central Bank of Nigeria (CBN), Banks and other Financial Institution Act (BOFIA), Securities and Exchange Commission (SEC) and so on.

Ilaboya and Ohiokha (2014), this study empirically examines the impact of audit firms' characteristics on audit quality. They proxy the dependent variable (audit quality) using the usual dichotomous variable of 1 if big 4 audit firm and 0 if otherwise. Data for the study were sourced from the financial statements of 18 food and beverage companies listed on the Nigerian Stock Exchange market within the period studied (2007-2012). They adopted multivariate regression technique with emphasis on Logit and Probit method in analyzing their data for the study. Their study revealed there is a positive relationship between firm size, board independence and audit quality whereas there is a negative relationship between auditor's independence, audit firm size, audit tenure and audit quality.

Chijoke, Emmanuel and Nosakhare (2012), examine the relationship between audit partner tenure and audit quality. They used Binary Logit Model estimation technique in analyzing the relationship between the tenure of an auditor and audit quality. Their findings reveal that there is a negative relationship between auditor tenure and audit quality though the variable was not significant. The other explanatory variables (ROA, Board Independence, and Director Ownership and Board size)

considered alongside auditor tenure were found to be inversely related to audit quality aside from Returns on Assets which exhibited a positive effect.

Adeyemi and Okpala (2011), opined that an audit firm's tenure can result in a loss of auditor's independence. A long audit-client relationship could lead to an alignment of the auditor's interest and that of its client which makes truly independent behaviour of the auditor a probability. The study concluded that audit firm rotation does not necessarily enhance audit independence in Nigeria. This could be due to the unity of professional attitude among auditors and similarity in cultural bias and orientation. or tenure may have significant effect on the audit quality.

Dopuch, King and Schwartz (2001) also examine the impact of auditor tenure on audit quality. The result is consistent with the hypothesis that the auditor compromises his independence most often in a long term auditor contract and suggests that after all auditor tenure may have significant effect on the audit quality.

Kabiru and Abdullahi (2012), they carried out an empirical investigation into the quality of audited financial statements of deposit money banks in Nigeria, using both primary and secondary data and from the population of 21 banks they select a sample of 5 banks comprises of First Bank, Zenith Bank, Union Bank, United Bank for Africa and Access Bank, all publicly quoted companies in Nigeria. They found that Independence of an auditor does significantly improve the quality of audited financial statements of money deposit banks in Nigeria. Compliance to auditing guidelines has positive and significant effect on the quality of audited financial statement of money deposit banks in Nigeria. Material misstatement does significantly affect the quality of audited financial statements of money deposit banks in Nigeria. They also found that audited financial statements of Nigerian money deposit banks, if re-audited by other independent auditors, will give the same result and conclusion.

Vanstraelen (2000) examines the effect of long-term audit client relationship on audit quality. The external user's perception of the audit report was used as the indicator for quality. Utilizing the logistic regression model, the study findings shows that long-term auditor client relationships is positively related with the increased likelihood of the auditor issuing an unqualified opinion. A significant difference was also found between the auditor's reporting behaviour in the first two years versus the last year of the audit mandate. This implies that auditors are more willing to issue an unqualified audit report in the first two years of their official mandate than in the last year of their mandate. The policy implications of Vanstraelen (2000) support mandatory auditor rotation to maintain the value of an audit for the external users.

Adeniyi and Mieseigha (2013), examined the effect of audit tenure on Audit Quality in Nigeria. A dummy value of 1 was used if a firm employ the services of any of the big 4 auditors and 0 if otherwise, tenure measured in terms of number of years spent as auditor for Sample company. If greater than 3, we assign 1, else 0, size measure as natural logarithm of total assets, return on Assets Calculated by dividing a company's annual earnings by its total assets, board Independence measured as the proportion of external directors on the board, board Size measured as the number of directors on the board, directors' ownership measured as the percentage of ownership by directors.

Their study revealed that the relationship between tenure and audit quality was observed to be inverse and this could stimulate the discourse on the sensibleness of changing auditors after a period of time as it may be effective at increasing the level of audit quality. For the other variables examined alongside tenure such as board size, board independence and director ownership which are all proxy of the corporate governance were found to be inversely related with audit quality. Their study further

reveal that return on assets have also be seen to be in line t with prior studies while that of company size is at variance with prior study.

2.4 Summary of the Review

The auditor's expertise hypothesis is based on information asymmetry in the auditor-client relationship. This reduces over time as the auditor acquires more knowledge of the client which helps him/her to detect material misstatement in the financial report. It implies that audit quality is lower during the early years of the auditor-client relationship and the quality increases as the length of auditor tenure increases due to reduction in the information gap between them (Beck et al 1988, Solomon et al, 1999, Geiger and Raghunadan 2002). Auditor tenure has two dimensions: the tenure of the audit-firm and the tenure of the individual partner engaged in the audit, particularly the engagement partner. More emphasis has been focused on the audit-firm tenure because of the difficulties in identifying the engagement partner. Empirical evidences of the effects of audit-firm tenure on the audit quality are mixed and conflicting (see table 1) .While some of the studies reports that audit quality decreases with increased audit-firm tenure, others like Casterella et al., (2002), Davis et al (2002), Johnson et al (2002), Myers, Myers, and Omer (2003), Ghosh and Moon (2005), Choi and Doogar (2005) and Gunny et al (2007) report a positive relationship.

Basically, most studies found that audit failures are more likely to occur with short audit-firm tenure of between 2-3 years (St.Pierre and Andersen, 1984; Stice, 1991; AICPA, 1992; Raghunathan et al., 1994; Walkel et al., 2001; Geiger and Raghunathan, 2002; Carcello and Nagy 2004, Gul et al, 2006 & 2007). Similar empirical researches on the effects of long audit tenure of the engagement audit partner on the audit quality produce mixed and inconclusive results (see Chen et al, 2004; Chi and Hong, 2005; Cary and Simnett, 2006). While some studies show positive association between audit

partner tenure and audit quality measured by discretionary accrual (Manry *et al.* 2008, Chi *et al.*, 2009; Chen *et al.*, 2010), others recorded a negative association (Carey & Simnett, 2006; Hamilton *et al.*, 2005; Fargher *et al.*, 2008). Equally, there are mixed and conflicting results on the empirical relationship between auditor's tenure and board rating, earnings management, earnings response coefficient, nature of audit opinions issued, frequency of restatements of financial statements and cost of debt. For instance, Myers *et al.* (2003) found that accruals (proxy for earnings management) decrease with auditor tenure whereas Davis *et al.* (2002) also using accruals arrive at different conclusion. Also, Vanstraelen (2000) found long auditor tenure significantly reduces auditor's willingness to qualify audit reports whereas Geiger and Raghunandan (2002) found the opposite. Myers *et al.* (2005) stated that the relationship between auditor tenure and the propensity for restatement could be positive or negative and they concluded the evidence provided no clear support. Ghosh and Moon (2005) found that earnings response coefficient increases with the length of audit firm tenure, consistent with earnings being greater as auditor tenure increases.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The ex-post facto research design was adopted in the study. This was based on analytical examination of the dependent and independent variables.

3.2 Population of the Study

The population of the study comprised of 20 listed deposit money banks in Nigeria.

3.3 Sample and Sampling Technique

The purposive sampling technique was used to select the sampled size of seven (7) banks out of population of twenty (20) quoted deposit money banks in Nigeria over a period of five years between to 2016-2020

3.4 Method of Data Collection

The study use secondary data financial statements of the sample companies for five (5) years were used. The areas of the annual report were data were extracted are statement of comprehensive income and statement of financial position.

3.5 Method of Data Analysis

The raw data extracted from the annual report of sampled deposit money banks were analyzed using the data analysis techniques. Multiple regression and correlation was used.

3.6 Model Specification

$$AUDQUA_{it} = \alpha_0 + \alpha_1 AUDFEE_{it} + \alpha_2 AUDFIMRO_{it} + \alpha_3 AUDTENURE_{it} + \alpha_4 LEV_{it} + \alpha_5 COYSIZE_{it} + e_{it}$$

Where;

AUDFEE = Audit Fee

AUDFIRRO = Audit Firm Rotation

AUDTENRE = Audit Tenure

Control variables

LEV = Leverage

COYSIZE = Company size

e_t = Error Term

α_0 = Intercept

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Descriptive Analysis

Table 1 contains the descriptive statistics of the study variables. The audit fee does not disperse too much away from the average audit fee of 8.2924200, as indicated by the standard deviation of .19821386.

There is also regular audit firm rotation, as the mean is .20, and the standard deviation is low at .406. The average audit tenure stand at .3714286, with a standard deviation of .49024089. The average leverage ratio of selected firm is 6.7547914; the average company size is 12.0959629.

Overall, all variables are well represented, with the computation of the minimum, maximum, mean and standard deviation.

Table 1 Descriptive analysis

	N	Minimum	Maximum	Mean	Std. Deviation
AUDFEE	35	7.90310	8.68840	8.2924200	19821386
AUDFIRRO	35	0	1	.20	.406
AUDTENURE	35	.00000	1.00000	.3714286	49024089
LEV	35	2.68170	11.43990	6.7547914	2.59702741
COSYSIZE	35	11.24810	12.58780	12.0959629	.31559334
AUDQUA	35	2.42	2.97	2.8631	.18769
Valid N (listwise	35				

Source: E-View 10 Output (2022)

Study of relationship - Correlation Analysis

The correlation between audit quality and audit fee is positive, strong and statistically significant ($r=.487$, $p \leq .003$). The positive relationship means that the quality of audit fee is dependent on the audit fee; the higher the audit fee, the more qualitative the audit work will be. There is also a 48.7%

relationship between the two variables. The relationship is significant at 1%, meaning we are 99% confident about the asserted nature of relationship between audit quality and audit fee.

The correlation between audit quality and audit firm rotation is positive but somewhat weak strong and not statistically significant at 5% level of significance ($r = .224$, $p \leq .196$). The positive relationship means that the rotation of audit firms on a regular basis engenders audit quality, because regular rotation of auditors will help checkmate some of the threats to the independence of auditors which could adversely affect or jeopardize the quality of audit. There is also a 22.4% relationship between the two variables.

The relationship between audit quality and audit tenure is weak, negative but not statistically significant at 5% level of significance ($r = -.152$, $p \leq .382$). The negative relationship means that the shorter the tenure of the auditor, the more qualitative the audit is likely to be. Short audit tenure via the regular rotation of auditors should help checkmate some of the threats to the independence of an auditor, thereby enhancing the audit quality. There is a 15.2% inverse relationship between the two variables - audit quality and audit tenure.

The correlation between audit quality and company leverage is strong, negative and statistically significant at 5% level of significance ($r = -.542$, $p \leq .001$). The positive relationship means that the higher the leverage level of the firm, the lower is the audit quality likely to be. There is also a 54.2% relationship between the two variables.

The correlation between audit quality and company size is strong, positive and statistically significant at 5% level of significance ($r = .631$, $p \leq .000$). The positive relationship means that the bigger the firm, the higher the quality of audit is likely to be. This may be unconnected to the fact that larger sized firms (expectedly with wider spectra of stakeholders), can afford to pay auditors better

which in turn implies that such auditors are likely to do more qualitative job, partly because of the large audit fee and partly because of the need to protect the interest of the wider stakeholder group in such large firms. The relationship is 63.1% strong, and we are 99% confident about the asserted nature of relationship between these two variables.

Table 2. Result of correlation analysis of study variables

	AUDITORSFEE	AUDFIRRO	AUDTENRE	LEV	COYSIZE
Pearson Correlation	.487 ^{oo}	.224	-.152	-.542 ^{oo}	.631 ^{oo}
AUDQUA sig.(2-tailed)					
N					

** .Correlation is significant at the 0.01 level (2-tailed).

** .Correlation is significant at the 0.05 level (2-tailed).

Study of relationship - Regression Analysis

Table 4 shows the ANOVA results of the model. The F statistics is 9.248, and the p value $\leq .0000$, meaning that the model is statistically significant at 5% significance level.

A visual inspection of the model significance is furnished in figure 1, generated from the SPSS (version 21) software.

Table 3. MODEL ANOVA

Model	Sum of square	Df	Mean square	F	Sig.
1 Regression	.736	5	.147	9.248	.000 ^b
Residual	.462	29	.016		
Total	1.198	34			

- a. Dependent Variable: AUDQUA
- b. Predictors: (Constant), COYSIZE, AUDTENURE, LEV, AUDFIMRO, AUDFEE

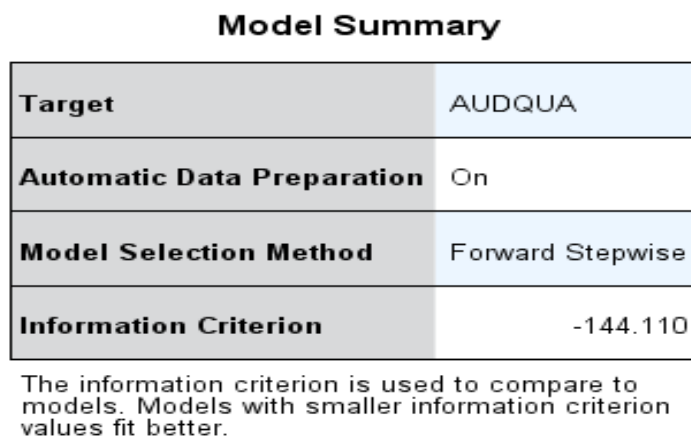
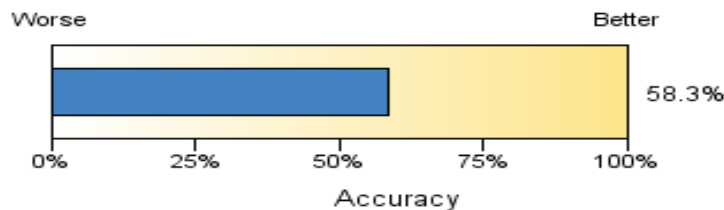


Figure 1 Model Summary for Audit Quality



The model has a 58.3% degree of accuracy. The model information criterion is also minimal (at -144.110), which proves the model fitness.

The summary of the model is presented in table 5. The coefficient of determination (R square) of .615 means that 61.5% of the audit quality is dependent on the combination of company size, audit tenure, leverage of client company, rotation of audit firm, and audit fee, while the remaining 38.5% (error term) is traceable to other factors that determine quality of audit, aside the variables specified in the model.

Table 4. Model Summary

Model	R	R Square	Adjusted R. Square	Std. Erroe of the estimate
1	.784 ^a	.615	.548	.12617

a. Predictors: (Constant), COYSIZE, AUDTENURE, LEV, AUDFIMRO, AUDFEE

Table 5 contains the coefficients of the regressors. The constant, α_0 has an unstandardised beta coefficient of -1.185 (p value $\leq .244$).

Table 5. Regression Coefficients'

Model	Unstandardized Coefficient		Standardized Coefficients	t		sig	Collinearity Statistics	
	B	Std. Error					Beta	tolerance
(Constant)	-1.185	.997		-1.188	.244	.244		
AUDFE	.121	.213	.127	.567	.567	.575	.263	3.797
AUDFEE	.021	.060	.044	.341	.341	.736	.785	1.27
AUDFIMRO	-.006	.054	-.016	-.115	-.115	.909	.659	4
AUDTENURE	-.032	.009	-.441	-3.362	-	.002	.771	
LEV	.370	.132	.453	2.047	3.362	.050	.271	1.518
COSYSIZE					2.047			1.298
								1.298
								3.688

Source: E-View 10 Output (2022)

a. Dependent Variable: AUDQUA

Audit fee (AUDFEE) has a coefficient, α_1 , of .121 (p value $\leq .575$), confirming the strong, positive relationship between audit quality and audit fee, earlier established from the correlation analysis.

Audit firm rotation (AUDFIMRO) has a coefficient, α_2 , of .021 (p value $\leq .736$), confirming the positive relationship between audit quality and audit fee, earlier established from the correlation analysis.

Audit tenure (AUDTENURE) has a coefficient, α_3 , of -.006 (p value $\leq .909$), confirming the negative relationship between audit quality and audit tenure, earlier deduced from the correlation analysis in table 3.

Leverage ratio of firm (LEV) has a coefficient, α_4 , of -.032 (p value $\leq .002$), corroborating the negative relationship between audit quality and level of leverage of the firm, earlier deduced from the correlation analysis in table 4.5.

Size of firm (COYSIZE) has a coefficient, α_4 , of .270 (p value $\leq .050$). The coefficient is statistically significant at 5% level of significance, confirming the positive relationship from our correlation analysis between audit quality and size of the firm, observable in table 3.

We tested for collinearity using the tolerance and VIF statistics. The regressors each had tolerance coefficient less than 1.0; and a VIF coefficient less than 10.0 (table 5). Collinearity between a dependent and independent variable will exist if the tolerance and VIF coefficients exceed 1.0 and 10 respectively. Since the co-efficients for all the regressors are within the specified limits, we conclude that there is no collinearity between audit quality and each of the independent variables.

Table 6 provides further analysis on the collinearity diagnostics

Table 6. Collinearity Diagnostics for study value

Model Dimension	Eigen value	Condition Index	Variance Proportion					
			(Constant)	AUDFEE	AUDFIMRO	AUDTENURE	LEV	COYSIZE
1	4.556	1.000	.00	.00	.01	.01	.00	.00
2	1.009	2.125	.00	.00	.42	.13	.00	.00
3	.351	3.605	.00	.00	.50	.65	.00	.00
1	.085	7.336	.00	.00	.00	.12	.90	.00
4	.000	118.885	.93	.04	.07	.08	.08	.14
5	8.691E-005	228.954	.06	.96	.00	.01	.02	.86
6								

Source: E-View 10 Output (2022)

a. Dependent Variable: AUDQUA

By substituting coefficients of variables of table 4.10 in our model, the equation yields:

$$\text{AUDQUA} = -1.185 + .121 \text{AUDFEE} + .021 \text{AUDFIMRO} - .006 \text{AUDTENURE} - .032 \text{LEV}_{it} + .270 \text{COYSIZE}$$

4.2 Hypotheses Testing

Hypothesis 1

H₀: There is no significant relationship between audit fee and audit quality

In table 3 containing result of correlation analysis, the correlation coefficient ($r=.603$, $p \leq .000$) is positive and statistically significant at 5%. We therefore do not accept the null hypothesis but the alternate, H₁, that *there is a significant relationship between audit fee and audit quality.*

Hypothesis 2

H₀: There is no significant relationship between audit firm rotation and audit quality.

Result of correlation analysis in table 3 shows there is no statistically significant relationship between audit firm rotation and audit quality ($r=.224$, $p \leq .196$). The

regressor coefficient of audit firm rotation (AUDFIMRO) in table 5 is not statistically significant ($\alpha_2 = .021$, $p \text{ value} \leq .736$), we therefore retain the null hypothesis, H_0 , that *there is no significant relationship between audit firm rotation and audit quality.*

Hypothesis 3

H₀: There is no significant relationship between audit firm tenure and audit quality

Result of correlation analysis in table 3 shows there is no statistically significant relationship between audit firm tenure and audit quality ($r = -.152$, $p \leq .382$). The regressor coefficient of audit firm tenure (AUDFIMRO) in table 5 is not statistically significant ($\alpha_3 = -.006$, $p \text{ value} \leq .909$), we therefore retain the null hypothesis, H_0 , that *there is no significant relationship between audit firm tenure and audit quality.*

4.3 Discussion of Findings

Stemming from the result of the analysis of this study, the findings showed that there is positive relationship between audit fee and audit quality and this indicate that audit quality is dependent on audit fee; the higher the audit fee, the more qualitative the audit work will be. The result is consistent with the studies of Craswel (2002), Frankel et al (2002) and Li et al (2005), they also agree that higher audit fees will increase the auditor's effort and result in a higher audit quality.

The relationship between audit firm rotation and audit quality is also positive and this signify that the rotation of audit firms on a regular basis engenders audit quality because regular rotation of auditors will help checkmate some of the threats to the independence of auditors which could adversely affect or jeopardize the quality of audit. Findings by Healy et al (2003), Carcello et al (2004), have also argued that rotation of

audit firms is a way of improving audit quality. This is because familiarity with the client has the effect of reducing the fresh point of view auditors have in the early years of engagement.

There exist negative relationship between audit firm tenure and audit quality and this imply that the shorter the tenure of the auditor, the more qualitative the audit is likely to be. It is also in tandem with the findings of previous studies such as that of Chijoke et al (2012), Davis et al (2003) and Carcello et al (2004). The correlation between audit quality and company leverage is strong, negative and statistically significant at 5% level of significance and this indicate that the higher the leverage level of the firm, the lower is the audit quality likely to be. The correlation between audit quality and company size is strong, positive and statistically significant at 5% level of significance. The positive relationship means that the bigger the firm, the higher the quality of audit is likely to be. It is in line with the study of Ilaboya et al (2014).

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Summary of the Findings

- i. Stemming from the result of the analysis of this study, the findings showed that there is positive relationship between audit fee and audit quality and this indicate that audit quality is dependent on audit fee; the higher the audit fee, the more qualitative the audit work will be. The result is consistent with the studies of Craswel (2002), Frankel et al (2002) and Li et al (2005), they also agree that higher audit fees will increase the auditor's effort and result in a higher audit quality.
- ii. The relationship between audit firm rotation and audit quality is also positive and this signify that the rotation of audit firms on a regular basis engenders audit quality because regular rotation of auditors will help checkmate some of the threats to the independence of auditors which could adversely affect or jeopardize the quality of audit.
- iii. There exist negative relationship between audit firm tenure and audit quality and this imply that the shorter the tenure of the auditor, the more qualitative the audit is likely to be. It is also in tandem with the findings of previous studies such as that of Chijoke et al (2012), Davis et al (2003) and Carcello et al (2004).

5.2 Conclusions

The correlation between audit quality and audit fee is positive, strong and statistically significant ($r = .603, p \leq .000$). The positive relationship means that the quality of audit is dependent on the audit fee; the higher the audit fee, the more qualitative the audit work will be. The correlation

between audit quality and audit firm rotation is positive but somewhat weak strong and not statistically significant at 5% level of significance ($r = .224$, $p \leq .196$). The positive relationship means that the rotation of audit firms on a regular basis engenders audit quality, because regular rotation of auditors will help checkmate some of the threats to the independence of auditors which could adversely affect or jeopardize the quality of audit.

The relationship between audit quality and audit tenure is weak, negative but not statistically significant at 5% level of significance ($r = -.152$, $p \leq .382$). The negative relationship means that the shorter the tenure of the auditor, the more qualitative the audit is likely to be. The correlation between audit quality and company leverage is strong, negative and statistically significant at 5% level of significance ($r = -.542$, $p \leq .001$). The positive relationship means that the higher the leverage level of the firm, the lower is the audit quality likely to be. The correlation between audit quality and company size is strong, positive and statistically significant at 5% level of significance ($r = .631$, $p \leq .000$). The positive relationship means that the bigger the firm, the higher the quality of audit is likely to be. This may be unconnected to the fact that larger sized firms (expectedly with wider spectra of stakeholders), can afford to pay auditors better which in turn implies that such auditors are likely to do more qualitative job, partly because of the large audit fee and partly because of the need to protect the interest of the wider stakeholder group in such large firms.

5.3 Recommendations

In order to make Nigerian Auditing firms more effective in their activities, so that they can continue to play their appropriate roles in the growth and development of deposit money banks and the economy at large, the following measures are recommended for adoption and practice:

- i. Auditors in Deposit money banks in Nigeria should charge reasonable fees that will cover their audit assignment so as to be able to carry out a thorough audit work. In light of this, low balling of audit fee should be discouraged.
- ii. Deposit money banks in Nigeria should ensure that audit firm rotation and audit quality are put into consideration and this is likely to enhance credibility of financial statement in deposit money banks in Nigeria.
- iii. Management of deposit money banks in Nigeria should consider the provisions of the Nigerian code of corporate governance in audit firm tenure and audit quality composition because it will improve the credibility of financial statement in deposit money banks in Nigeria.

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Appendix I Data of Study Firm

	N	Minimum	Maximum	Mean	Std. Deviation
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AUDQUA	35	2.42	2.97	2.8631	.18769
Valid N (listwise)	35				

Source: E-View 10 Output (2022)

	Years	Years	AUDFEE	AUDFIRRO	AUDTENURE	LEV	COYSIZE
	2016	8.0597	0	0	0		
	2017	8.1038	1	1	0		
	2018	8.1133	0	0	0		
	2019	8.2468	0	0			
	2020	8.3810	0	0			

Source: E-View 10 Output (2022)