

Determinants of Auditors Choice in Nigerian Quoted Manufacturing Companies

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Abstract

This paper investigates the determinants factors affecting auditors choice in quoted manufacturing companies in Nigeria. This study utilized both primary data and secondary data. The primary data were collected through the administration of structured questionnaire, while the secondary data were sourced from annual accounts and reports of sampled companies. The questionnaire on the determinants of the choice of auditors used by Oxera, (2006) was adopted for the study. 500 copies of the questionnaire were administered to respondents who were purposively selected shareholders of the quoted manufacturing companies in south western part of Nigeria. 308 copies of the questionnaire were returned and analyzed. Data collected were analyzed using both descriptive and inferential statistics. Logistic Regression Analysis was used to analyze the data, the results showed that the two most important factors influencing the company's choice of auditors are international coverage and long-term relationship with current auditors. Collectively, the findings have important implications for audit markets in emerging economies in which the sustainability of manufacturing firms is crucial to overall economic development.

Keywords: Audit Market; Auditors Choice; Shareholders; Manufacturing companies.

1.0 INTRODUCTION

Engaging with an audit firm is a significant corporate governance mechanism in order to alleviate several disorders or conflicts which can be created in a company's internal environment (Evangelia, 2013). The Nigerian laws make it mandatory for companies to have their financial statements audited by an independent public accountant. While the company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the provisions of the Companies and Allied matters Act, CAP C20 Laws of the Federation of Nigeria, 2004 and the Financial Reporting Council of Nigeria Act No 6, 2011 for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error, the external auditor is responsible for auditing the financial statements of his clients in accordance with Generally Accepted Auditing Standards (GAAS) to provide reasonable assurance that the financial statements give a true and fair view. Effective functioning of the capital markets is only possible when investors and other stakeholder have sufficient confidence in the presented financial statements.

The reasons why an organization chooses a specific auditor may be complex and are likely to vary across organizations as the benefits of acquiring an audit are multi-faceted (Knechel, 2002). The main reason proposed in the literature for a company to hire an auditor and to accept the additional monitoring by an external party, is derived from the Agency Theory. Directors of companies make this decision with the intention to reduce agency costs caused by several information asymmetries arising in a company's environment. The choice of a specific auditor is linked with these arising agency costs.

Auditing services are an integral part of array of services offered by a large proportion of professional accounting firms. Companies that need to engage an accounting firm to provide professional auditing services are faced with the problem of deciding whether to re-appoint incumbent auditor or appoint a new auditor. Auditing has an important role in the corporate governance process and is essential in ensuring confidence in the reliability of financial information (Abidin, 2006). External auditors are entrusted by law with conducting statutory audits and fulfill important role in offering an opinion on whether the financial statements are stated truly and fairly (Quick, 2012). Section 357 (1) of the Laws of the Federation (LFN) of Nigeria Cap C20 Companies and Allied Matters' Act (2004) states that:

"Every company shall at each annual general meeting appoint an auditor or auditors to audit the financial statements of the company and to hold office from the conclusion of that, until the conclusion of the next, annual general meeting".

The idea of appointing external auditors arise in the quest to find more efficient ways of promoting accountability in complex organizations where management interests could differ from shareholder interests (Ekumankama & Uche, 2009). The law usually stipulates that external auditors should be appointed by

shareholders and report to shareholders at annual general meetings. In Nigeria, 2,000 audit firms currently supply audit services to domestic listed and unlisted companies (World Bank, 2011). Despite the availability of large numbers of audit suppliers, the audit market is dominated by only a small number of large audit firms called the “Big Four”. The Big four audit firms in the country are: KPMG Professional Services; Ernst and Young (E & Y); Akintola Williams Deloitte (AKWD); and Pricewaterhouse Coopers (PWC)]. According to the World Bank (2004), the ‘Big Four’ international accounting firms audit about 90 percent of listed companies in Nigeria, while the 15 national firms with international affiliation audit the remaining 10 percent. The market share gap between Big Four and smaller firms have become wider potentially reducing the possibility for the small firms to become significant service providers in this market segment (World Bank, 2004).

The increased competition in the audit market itself has led to a desire to understand the factors that influence auditor selection decision. Beattie and Fernley (1995) posit that auditor choice is motivated by three possible sources – audit environment, audit firm characteristics, and finally client characteristics. To date, most of the auditor selection research has predominantly been conducted in the US and other developed economies such as Australia (Craswell, 1988), New Zealand (Firth & Smith, 1992) and the UK (Beattie & Fernley, 1995). This study will be among the few exceptions (Citron & Manalis, 2001) on auditor selection in Greece) which shed light on auditor selection, in an emerging market and (Aksu, Onder and Saatcioglu (2007) that provide evidence on the auditor selection process in Turkey.

The objective of this study is to determine the choice criteria quoted manufacturing companies use in the process of evaluating professional accounting firms that provide auditing services. The paper consists of six sections. Besides this introduction, section two presents a review of extant literature related to the study. The third section is on theoretical framework, while fourth section is on the methodology adopted for the study. The results of the analysis and discussion form the focus of the section five. The last section is the summary of research findings, recommendations and conclusion.

2.0 REVIEW OF LITERATURE

Audit involves performing procedures to obtain evidence about amounts and disclosures in the financial statements so as to evaluate the appropriateness of accounting estimates made by management (KPMG, 2008). Earlier studies in the US have documented that the ‘Big Four’ auditors provide higher quality than non-Big Four’ audit firms. There is now a great deal of evidence that large audit firms provide higher quality audits and offer greater credibility to clients’ financial statements than small audit firms. The stock market reacts more favourably when a company switches to a large auditor rather than to a small auditor (Nichols & Smith, 1983); large audit firms give more accurate signals of financial distress in their audit opinions (Lennox, 1999). The audit quality, therefore, is a basic ingredient in enhancing the credibility of financial statements to users of accounting information. DeAngelo (1981) sees audit quality as the probability that an auditor will both discover and truthfully report material errors, misrepresentation and omission detected in a client accounting systems.

Previous theoretical and empirical research has generally established that audit has economic value, even in the absence of a mandated audit requirement (Sundem, Dukes & Elliot, 1996). The decision to have an auditor and the decision to switch auditors are complex choices (Sijie, 2013). In Australia, McPhail and Sands (1994) determine the choice criteria use in the auditor selection process. According to these authors, eight criteria were identified from the literature. The study resulted in identifying nine choice criteria with firm ‘Technical Competence’ and ‘Client Orientation’ are two most important criteria and ‘level of Audit Fee’ and ‘Effective Preparation’ and ‘Communication of Audit Submission’ significantly more important to companies appointing a new auditor. A change of auditor may be due to demand for audit quality. Beattie and Fearnley (1995) report that dissatisfaction with audit quality is one of the most common reasons cited for choosing different auditors. A company may choose a higher quality auditor in order to provide more credible information to investors and creditors (Schwartz & Menon, 1985). Pong and Kita (2006) provided some univariate analysis and indicated that Japanese companies lent to select the same external auditors as their main banks to reduce the agency costs.

In Finland, Knechel, Niemi and Sundgren (2008) analyze the auditor choices for a sample of 2,333 predominantly small and mid-sized Finnish firms. They find that among the smallest firms, the choice to hire a certified auditor relates to the level of complexity in the organization as measured by size and extent of workforce. According to these authors, for firms that must use a certified auditor find that the choice between a first tier and second tier firm is related to size, the extent of debt financing, and complexity associated with being a member of an associated group. Finally, in the upper end of the market, the decision to hire a large international firm relates to size, the need for financing, be it equity or debt, and complexity due to a broad labour force. Knechel *et al.* (2008) and many other researchers contend that large companies characterized by excessive internal complexity are more likely to choose a Big Four auditor.

In China, Lin and Liu (2009) investigate the determinants of firm’s auditors’ choice in respect of their corporate governance mechanism. The authors developed a logic regression model to test the impact of firm’s

internal corporate governance mechanism on auditors' choice decisions made by Initial Public Offering (IPO) when getting firm listed during a bear market period of four years (2001 – 2004) in China. The empirical results show that firms with large controlling shareholders, with smaller size of Supervisory Board (SB), or in which the duality of Chief Executive Officer (CEO) and chairman of Board of Directors (BoDs) are the same person, are likely to hire a Top 10 (high quality) auditor.

In an international study, Revier and Schroe (2010) investigate which determinants are important in making the auditors' choice and test them in the European environment. In their research, they used data from 12 European countries. Their results point out that companies in a country of which the national legislation finds its origin in English law and Scandinavian law countries are likely to hire a Big Four auditor. They also found proof of the positive influence that internal complexity has on the auditors' choice. In China, Cheng and Leung (2011) examine whether management demographic characteristics would influence the choice of auditor. Their findings show that the upper echelons influence corporate governance commitment through auditors' choice. In Malaysia, Nazatul, Syed, Nazri, Smith and Ismail (2012) examine the impact of ethnicity on auditor choice for Malaysian listed companies. The study evaluates the effects of various independent variables on auditors' choice behavior, particularly ethnicity of auditor and ethnicity of management using a regression logistic analysis approach for 300 companies listed on the Bursa Malaysia. Findings of the study reveal that auditors' choice is shown to be significantly influenced by client firm's characteristics, notably changes in management, complexity, and financial risk, lending support to the findings of previous survey studies. Ethnicity was found to be a significant factor influencing auditors' choice between non-Big Four and Big Four audit firms. Based on the findings of Broye and Weil (2008) listed companies are more likely to select a high-quality auditor since they have great incentives to signal their intention to provide precise and reliable financial information.

The auditor choice is a decision where company managers need to outweigh the marginal benefits and marginal costs the hiring of a specific auditor might bring. In the literature, the main distinction between audit firms used, is the one between high - quality auditors and non - high - quality auditors. Several attempts have been made to determine what qualifies a certain auditor to be a high - quality auditor and how to proxy for this in research. The most cited work that has provided previous researchers with a potential determinant is the work of DeAngelo (1981). In her work, she argues that many firms have a changing amount of agency costs to deal with, which vary over time and place. This latter cause the incentive for company managers to look at ways to lower these changing agency costs by engaging an auditor who provides adequate services appropriate for the company's needed level of quality. However, when one would make an attempt to measure the quality of an auditor and his provided services, this would become too costly in accordance with the benefits of having adequate external monitoring.

Therefore, DeAngelo has tried to provide company managers and co - researchers an alternative to measure the quality of audit services. In her research, she argues that larger audit firms have less incentives to provide a low quality audit as they earn more client - specific quasi - rents due to their larger clientele basis. Because of this latter, larger audit firms are less dependent on one specific client and therefore less eager to make mistakes. A first proxy used in literature for the quality of an audit firm is accordingly, size. Another proxy provided by the literature, as proposed by Klein and Leffler (1981), is price. They indicated that price is another measure for quality. Although the research of Klein and Leffler (1981) mainly focused on quality in general, their proxy has been used by many other researchers investigating the auditor choice. The research by Thornton and Moore (1993) investigate how audit fees are determined and what their influences are on the auditor choice. In Kenya, Gatuma (2012) carried out a study with a view to establish the determinants of choice of external auditors by commercial banks. The study reaches a conclusion that choice of external auditors is unaffected by external audit fee charges.

Klein and Leffler (1981) also found evidence that brand - name reputation generates quasi - rents and stimulates audit firms to develop and maintain brand - name reputation. Accordingly they suggested that quality is also determined by reputation. In addition, Simunic and Stein (1987) found evidence that Big Four firms have high brand - name reputations. Auditors with a certain reputation are assumed to have less incentives to decrease their quality because of the quasi - rents they are able to generate with their reputation and their brand - name. The study of Moizer (1997) investigating auditor reputation revealed that company managers experience a Big Four auditor as different from others. They are expected to provide higher quality services in accordance with their other peers. A third determinant for being a high - quality auditor is therefore brand - name reputation.

When a company is listed, Broye and Weill (2008) suggested that the likelihood of having a Big Four auditor increases. They argued that it is likely that companies, listed on a stock exchange choose Big Four auditors as they are more experienced in complex operations. Furthermore, Big Four auditors have a large international network at their disposal and have the ability to signal private information on the market.

2.1 THEORETICAL FRAMEWORK

The theory upon which the study rests is the Agency Theory. The Agency Theory is based on the relationship between the principal (owners) and the agent (managers). The separation of ownership from management in modern corporations provides the context for the function of the Agency Theory. Modern organisations have widely dispersed ownership in the form of shareholders, who are not normally involved in the management of their companies. In these instances, an agent is appointed to manage the daily operations of the company. This distinction between ownership and control creates the potential for conflicts of interests between agents and principals which result in costs associated with resolving these conflicts (Jensen & Meckling, 1976 and Eisenhardt, 1989).

The most important basis of Agency Theory is that the managers are usually motivated by their own personal gains and work to exploit their own personal interests rather than considering shareholders' interests and maximising shareholder value. For example, managers may be attracted to buying lavish offices, company cars and other extravagant items, since the cost is borne by the owners. Thus, the key predicament indicated by Agency Theory is ensuring that managers pursue the interests of shareholders and not only their own interests. Eisenhardt (1989) explains that agency problems commence when "the goals of the principal and agent conflict, and it is difficult and costly for the principal to verify what the agent is actually doing". Controversy occurs because principals are unable to monitor the performance of agents (Jensen & Meckling, 1976). At its simplest, Agency Theory is the recognition that the inclination of agents, in this case, the directors or managers of the business, is to act rather more in their own interests than those of their employers and the shareholders. The Institute of Chartered Accountants in England and Wales, in November 2006 (as cited in Millichamp & Taylor, 2008:1) put it this way:

In principle the agency model assumes that no agents are trustworthy and if they can make themselves richer at the expense of their principals they will. The poor principal, so the argument goes, has no alternative but to compensate the agent well for their endeavors so that they will not be tempted to go into business for themselves using the principal's assets to do so.

Watts and Zimmerman (1978) presented evidence that auditing has not been developed as a result of governmental requirements, but rather for purposes of reducing the agency costs and conflicts of interest among parties to the firm. According to Agency Theory, the agent (management) fulfils certain obligations for the principal (shareholders) by virtue of the terms of the economic contract. The primary means of monitoring managers of a firm is by an audit of the financial statements by an independent monitor (audit firm). In order for this monitoring mechanism to be successful, several components of the audit must be in place. First, the monitor must be independent of the agent, meaning that the auditors must not have any conflicts of interest with the managers. Second, the standards for conducting the audit must provide reasonable certainty of detecting misstatements or fraud. Finally, the agent's accounting practices and financial disclosures must be relevant and reliable (Culpan & Trussel, 2005).

Based on this framework, auditing dilutes the adverse effects of the separation of ownership and control (Jensen & Meckling, 1976). However, some of the main features of the audit environment, such as competition and regulations, interfere in the role of separation of ownership and control. Competition from the marketplace limits the rents an audit firm receives from its private information. Yet, the market also provides the audit firm with alternative sources of demand that increase its threats of resignation. Regulations create the requirement for the purchase of a minimum quantity of auditing, as suggested by Generally Accepted Auditing Standards (GAAS) that prescribe minimum audit procedures (Antle & Demski, 1991). Therefore, competition and regulation may interact in determining the relationship between an audit firm and its role in diluting the adverse effects of the separation of ownership and control.

3.0 METHODOLOGY

The data for this study was sourced from both primary and secondary sources. The primary data was taken from a carefully constructed questionnaire. The questionnaire on the determinants of the choice of auditor used by Oxera (2006) was adopted for the study. Information sought included demographic and social economic characteristics of respondents as they affect the criteria for the choice of external auditors by the quoted manufacturing companies in Nigeria. 500 copies of the questionnaire were administered to respondents who were purposively selected shareholders of the quoted manufacturing companies in south western part of Nigeria. 308 copies of the questionnaire were returned and analyzed. Purposive sampling technique was adopted because it enables the researchers to identify and utilize knowledgeable shareholders in the process of selecting an external auditor. The questionnaire was designed to enable respondents to provide demographic information about themselves. The period for data collection was between March, 2015 to October, 2015. Data collected were analyzed using both descriptive statistics and inferential statistics with the aid of STATA software.

3.1 Variables and Measurement

3.1.1. Auditors Choice

The dependent variable is the choice of the audit firms. For the purpose of this study, audit firms are classified into two; the 'Big Four' audit firms and non-'Big-Four' audit firms.

A dummy variable that takes the value of unity or one (1) when a respondent company uses Big Four and zero (0) if otherwise.

3.2. Independent Variables

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

3.2.1 Technical Accounting Skill: Technical accounting skill is assigned one (1) if respondent opined that technical accounting skill is a factor in determining external choice of auditor in his/her company and zero (0), if otherwise.

Sector-Specific Expertise: Sector-specific expertise takes a value of one (1) if respondents opined that Sector-specific expertise is a factor in determining external choice of auditor in his/her company and zero (0), if otherwise.

3.2.2 International Coverage: International coverage is assigned One (1) if respondents opined that International coverage is a factor in determining external choice of auditor in his/her company and zero (0), if otherwise.

3.2.3 Management Preference for Specific Auditor: The variable takes on value of unity if respondent is of the opinion that management preference for specific auditor is a factor in determining external choice of auditor in his/her company and zero (0), if otherwise.

3.2.4 Long-Term Relationship with Current Auditor: This variable takes on the value of unity (1) if opined that Long-term relationship with current auditor is a factor in determining external choice of auditor in his/her company and zero (0), if otherwise.

3.2.5 Reputation of Audit Firm with Investors: Reputation of audit firm with investors is assigned One (1) if respondents opined that reputation of audit firm with investors is a factor in determining external choice of auditor in his/her company and zero (0), if otherwise.

3.2.6 Reputation of Audit Firm with Corporate Broker: The variable is assigned one (1) if respondents opine that reputation of audit firm with corporate broker is a factor in determining external choice of auditor in his/her company and zero (0), if otherwise.

3.2.7 Reputation of Audit Firm with other External Advisers: This variable takes on the value of unity (1) if respondents opined that reputation of audit firm with other external advisers is a factor in determining external choice of auditor in his/her company and zero (0), if otherwise.

4.0 RESULTS AND DISCUSSION

This section presents and discusses the result of responses to the survey. The study administered five hundred (500) structured questionnaires of which three hundred and eight (308) were thoroughly filled and returned, giving a response rate of 62%. The analysis of this study was based on the retrieved copies of the questionnaire. The section is structured as follows; demographic characteristics of the respondents, respondents views on factors influencing choice of external auditor, respondents ranking of determinants of choice of external auditor, ranking of stakeholders views in choosing external auditor and logistic regression predicting choice of external auditor.

4.1 Demographic Characteristics of the Respondents

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

Table 1: Demographic Information of Respondents

	Frequency	Percentage
Sex		
Male	210	68.2
Female	98	31.8
Total	308	100.0
Marital Status		
Single	55	17.9
Married	246	79.9
Divorced	3	1.0
Widowed	4	1.3
Total	308	100.0
Age		
18-25yrs	29	9.4
26-35yrs	69	22.4
36-45yrs	122	39.6
Above 45yrs	88	28.6
Total	308	100.0
Average monthly income		
Less than N100,000	93	30.2
N101,000 – 200,000	117	38.0
Above N200,000	98	31.8
Total	308	100.0
Highest educational qualification		
No formal	1	0.3
Primary education	1	0.3
Secondary education	-	-
OND/NCE	29	9.4
B.Sc	185	60.1
M.Sc/Ph.D	92	29.9
Total	308	100.0
How long have you been a shareholder?		
1-20yrs	193	62.7
21-30yrs	85	27.6
Above 30yrs	30	9.7
Total	308	100.0

Source: Field Survey, (2015).

From the Table 4.1, male respondents were 68.2% and female respondents were 31.8%. Majority of the respondents surveyed (79.9%) were married. The majority of the respondents were between 36 – 45 years. None of the respondent is less than 18 years. The distribution of the respondents by average monthly income shows that 38.0 % of the respondents have their average income between ₦101, 000 and ₦200, 000. This means before one can be a shareholder he must be comfortable, that is to say, a poor person cannot be a shareholder (or an investor). Categorization based on the education qualifications shows that the majority (60.1%) have HND/BSC certificates. Only 0.6% holds below school certificates. This means most of the respondents are educated (99.4%). Majority of the respondents have been shareholders for between one and twenty years. Majority (75%) of the respondents have shares in manufacturing companies in Nigeria. Majority (66%) of the respondents are not major shareholder in the companies.

Table 2 : Logistic Regression Result Predicting External Auditor Choice in Manufacturing Companies

Auditor_choice	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]
TAS	-.6155879	.3955727	-1.56	0.120	-1.390896 .1597203
SSE	-.1705432	.3024061	-0.56	0.573	-.7632481 .4221618
IC	.7868758	.3119678	2.52	0.012	.1754301 1.398322
MP	-.5743121	.2956459	-1.94	0.052	-1.153767 .0051433
CTR	-.7112016	.3199346	-2.22	0.026	-1.338262 -.0841412
ARI	-.3433659	.3159798	-1.09	0.277	-.962675 .2759431
ARB	-.1144112	.5133414	-0.22	0.824	-1.120542 .8917195
AFE	1.152506	.8935742	1.29	0.197	-.5988674 2.903879
_cons	2.014325	.4899651	4.11	0.000	1.054011 2.974639

Number of obs = 308

LR chi2(8) = 20.61

Prob > chi2 = 0.0083

Log likelihood = -155.98461

Pseudo R² = 0.0620

Correct Classification = 76.3

Source: Author's computation, 2015

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

$$DEAC = 2.014 + (0.616)TAS + (-0.171)SSE + 0.787IC + (-0.574)MP + (-0.711)LCTR + (-0.343)ARI + (-0.114)ARB + 1.153AFE + \epsilon_t$$

Where:

DEAC = Determinants of External Auditor Choice

TAS = Technical Skill

SSE = Sector-Specific Expertise

IC = International Coverage

MP = Management Preference for Specific Auditor

LCTR = Long-Term Relationship with Current Auditor

ARI = Reputation of Audit Firm with Investors

ARB = Reputation of Audit Firm with Corporate Broker

AFE = Reputation of Audit Firm with other External Advisers

The Table 2 shows that only international coverage and long-term relationship with current auditor were significant with p-value less than 0.05. The coefficient of determination (R²) indicates that considering all the variables, it explained just 6.2% of the determinant of external auditor choice in Nigerian quoted manufacturing companies. This is as a result of none significance of other seven variables with exception of the two mentioned earlier. This presents the result of logistic regression. The last panel of Table 2 gives the model diagnostic and it shows that the model's fit is acceptable. The chi-square value which shows that overall model fit is significant at 1% level. Equally, it is also shown that 76.3% of the model is correctly classified (predicted with the logistic regression). The evaluation of each of the variables included in the model on the dependent variable showed that international coverage and long-term relationship with current auditor are significant determinants of external auditor choice. It is shown in the Table 2 that the auditor with international coverage is two times more likely to be considered by manufacturing companies compare to auditor without international coverage. However, it is found that attributes such as "management preference for specific auditor" and long-term relationship with current auditors are 43.7% (1 minus 0.563) and 50.9% respectively less likely to predict external auditor choice when compared with auditors without these attributes.

5.0 CONCLUSION AND RECOMMENDATIONS

This paper investigates the criteria quoted manufacturing companies in Nigeria use in the process of evaluating professional accounting firms that provide auditing services. It provides evidence on the relationships between auditor choice and related variables. The study also expatiates on some key determinants considered for choice of external auditors. Some of these determinants are technical accounting skill, sector-specific expertise, international coverage, management preference for a specific auditor, long-term relationship with current auditor and reputation of audit firm with investor among other.

Out of the 50 companies sampled for this study, it was found that 31 (which represents 62%) companies were audited by a Big Four auditor, whereas 19 (which represents 38%) choose a non-Big Four auditor. It can be concluded that, Big-four audit firms are viewed as quality service providers compare to non-Big-four audit firms.

In accordance with the findings of Broye and Weill (2008), public companies are more likely to choose a Big Four auditor since they have great incentives to convey their intention to provide accurate and reliable financial information. Our findings reveal that the three most important factors influencing auditor selection by knowledgeable shareholders in Nigeria are technical accounting skill, sector-specific expertise and international coverage. This is in disagreement with Oxera (2006) which identifies technical accounting skill, reputation of audit firm with investors and international coverage as the three most important factors influencing auditor selection in United Kingdom. This could not be unconnected with the nature of audit environment and also nature of survey design that is not only judgmental but persuasive.

The study provides evidence that most of the changes experienced by the quoted manufacturing companies in Nigeria are from big four audit firm to another Big Four audit firm. In Nigeria, as in other countries, the Big Four audit firms dominate the audit market. As a result, larger percentage of auditing service comes from the Big Four audit firm. Since external audit is an element of governance and accountability, the choice of an external auditor with high level of sector specialization is an important dimension of audit quality and could improve governance, accountability and financial reporting quality among quoted manufacturing companies in Nigeria. The results of our analysis showed that the two most important factors influencing the company's choice of auditor are international coverage and long-term relationship with current auditor. The study recommends that quoted manufacturing companies should evaluate the quality of the auditor before selection.

In light of the above, the study recommends that quoted manufacturing companies in Nigeria should evaluate the quality of the auditor before selection.

The smaller audit firms should place emphasis on quality to increase their share in the audit market. Mergers amongst the non-Big-Four audit firms should be considered in order to reduce the current gap between the Big Four and non-Big-Four audit firms. Mandatory joint audits may be useful to reduce market concentration on the condition that one joint auditor should be non-Big Four audit firm.

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