Determinants of Auditor Switching on Quoted Deposit Money Banks in Nigeria

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Abstract

The study investigated the determinants of auditor switching on Quoted Deposit Money Banks (DMBs) in Nigeria from 2012 to 2018. Ex-post facto research design was adopted to examine the factors that influence auditor switching. Out of the 14 deposit money banks listed on the floor of the Nigeria Stock Exchange (NSE) as at 31st December, 2017, a sample size of 12 quoted deposit money banks were selected through stratified sampling technique. Data were collected from the annual reports and accounts of the selected banks and the modified Jones model was used to estimate the discretionary accruals which were deployed as a measurement of earnings management. Logistic regression analysis was used to estimate the determinants of auditor switching. STATA 15 statistical software was deployed to conduct the regression analysis. The results of the study indicated an inverse but a significant relationship between audit fees and auditor switching while a positive and significant relationship was also established to exist between the size of banks and auditor switching. However, there was no any significant relationship between bank's leverage and auditor switching. The study concluded that Small-sized banks did switch their auditors within 3 years during the period of this study but large-sized banks maintained the same set of auditors for a relatively longer period of time spanning 3 years and beyond and recommended among others, that listed banks should pay audit fees commensurate to the quality of professional services to be provided by their auditors as doing so could afford them the opportunity of benefiting from quality audit services that would enhance the quality of their auditor switching and also promote stability/longer tenure between them and their clients.

Keywords: Audit Fees, Auditor Switching, Banks Size, Discretionary Accruals and Deposit Money Banks.

Introduction

The Nigerian business environment has been perceived in some quarters as not too conducive to investors; both local and foreign. The reasons adduced for this assertion includes the inability of financial reports to meet the needs of this group of users. The prevalence of fraud, excessive earnings management and other financial crimes in the country has reduced the level of confidence repose in the financial statements; and in the ability of these statements to perform their requisite functions (Akinjobi & Omowumi, 2010). In the light of the cost of frauds to the business and the offender, it is important to develop strategies to prevent or detect business fraud, taking a cursory look at the risk factors associated with business, giving due attention to the motives attached with it, and establishing how to effectively manage it on a daily basis (Akinjobi & Omowumi, 2010). Hence, the auditors are looked upon as 'messiahs' in correcting this anomaly, and thereby directly, or indirectly creating a balance in the functioning of the business environment. Consequently, higher audit quality can be easier achieved by the larger audit firm because of their ability to discover and detect the misstatements inherent in financial statements (Hosseinniak, 2014).

Audit gives credibility to the information provided in the financial statements of firms through independent verification of management-provided financial reports. Soyemi (2015) viewed external audit services provided by professional accounting firms as a key corporate governance mechanism providing an oversight role, especially on the financial management angle of the entity. Therefore, various laws require the engagement of statutory auditors to confirm the reliability of the contents of corporate financial statements in order to assure investors and other users of financial statements of the credibility of financial disclosures and hence mitigate the agency problems (Chadegani, Mohammed & Jari, 2011). In addition, Suyono, Yi and Riswan (2013) observed that the period during which an auditor provides professional services for a client firm is the audit tenure. The authors went further by highlighting works that established that long audit tenure could evoke self-complacency, lack of innovation, inaccurate audit procedures and most especially, erode the auditor's independence. To mitigate these adverse effects of a long relationship between the auditor and the client therefore, forced/mandatory auditor rotation, necessitating a switch or change of incumbent audit firms by clients, are required by industry regulators. Auditor independence gives credence to firms' and various works (Akinjobi & Omowumi, 2010; Hosseinniak, 2014; Soyemi, 2015) have established auditor rotation, which is synonymous with auditor switching, would enhance auditor's independence. Kasharmeh (2015) viewed auditor's fees, auditor's opinion, audit quality,

client size, changing environment, financial condition (stress) as determinants of auditor switching.

Olowookere and Inneh (2016) noted that about 2,000 audit firms are currently providing audit services to quoted and unquoted companies in Nigeria. Nevertheless, of the available large numbers of providers of audit services, the audit market in Nigeria is dominated by only a small number of the large audit firms generally referred to as the 'Big Four'. These Big Four audit firms are: KPMG Professional Services; Ernst and Young (E & Y); Akintola Williams Deloitte (AKWD); and PriceWaterhouse Coopers (PwC). The 'Big Four' international accounting firms provide audit services to about 90 percent of listed companies in Nigeria, while the 15 national firms with international affiliations audit the remaining 10 percent. The market share gap between the 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 (Olowookere & Inneh, 2016).

Nevertheless, audit practitioners, that is, professional auditors have contended that auditor switching in the form of limited audit tenures would lead to loss of audit quality rather than enhancing investors' interests (Price Waterhouse Coopers, 2015). Furthermore, conflicting results of impact of auditor switching have been observed and attributed to differences in jurisdiction (Bedard & Johnstone, 2010). These jurisdictional differences create a gap requiring academic research to be conducted in a developing country like Nigeria. This gap is further widened by the methodology adopted in the limited works available which are largely based on data collected from primary sources with their attendant weaknesses. Therefore, this study aims to contribute to the body of knowledge by appraising the pattern of auditor switching in quoted deposit money banks in Nigeria and examining the significant factors that impact auditor switching as well as how these factors affect quoted deposit money banks in Nigeria.

Theoretical Framework

The theoretical framework upon which this research work was based is the Agency Theory. Agency theory provides the explanation for the relationships between one party called the principal, who hires another party, the agent, for purposes of delegating responsibility for the latter (Jensen & Meckling, 1976). It 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; Eisenhardt, 1989).

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 auditing the financial statements of such firms by an independent audit firm that has no affiliation with the managers of such firm (DeAngelo, 1981). 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 a reasonable certainty of detecting misstatements or fraud. Finally, the agent's accounting practices and financial disclosures must be relevant and reliable (Imegi & Oladutire, 2018). 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 with 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. 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. Thus, the key predicament indicated by Agency Theory is ensuring that managers pursue the interests of shareholders and not only their own interests.

Review of Empirical Studies

Fadaly (2018) analyzed the choice of auditors in Saudi Arabian firms. The study investigated the main audit characteristics that influence firms' decision to go for either Big Four or a local audit firm. A representative sample of 124 firms out of a total of 183 listed firms in the Saudi stock market were selected. The questionnaire was distributed to members of audit committee to ensure reliable responses regarding the selection process. The data collected for the study were analysed using both descriptive and inferential statistics -Logistic Regression Analysis method. The study found out that for the purpose of the selection decision, audit fees, audit firm reputation with investors, geographical

proximity and long-term relationship with the current auditor proved statistically significant.

Olowookere and Adebiyi (2013) investigated the determinants of audit quality with a focus on selected Deposit Money Banks listed on the floor of the Nigeria Stock Exchange from 2010-2015. This study made use of secondary data obtained from fact books, annual reports and account of selected banks under study. The relevant data were subjected to statistical analysis using Pearson coefficient of correlation, Ordinary Least Square (OLS) and Granger causality test with the aid of E-view 9.0. The result of this study revealed that there is a positive and statistically significant relationship between audit fees, audit tenure, audit firm size and audit quality. It was also empirically verified that audit fees, audit tenure, audit firm size have a statistically significant relationship with audit quality of banks listed on the floor of the Nigerian Stock Exchange at 5% level of significance. The study recommends, among others, that the auditor - client relationship, should not exceed 3 years, because the auditor may develop a close relationship with the client and become more likely to act in favor of management, resulting in reduced objectivity and audit quality.

Olowookere and Inneh (2016) investigated the determinant factors affecting auditors' choice in quoted manufacturing companies in Nigeria. Their study utilized both primary and secondary data collected through the administration of structured questionnaire and from annual reports and accounts of the sampled companies respectively. Five hundred (500) copies of the questionnaire were administered to respondents who were purposively selected shareholders of the quoted manufacturing companies in the South western part of Nigeria. 308 copies of the questionnaire were returned and analysed. The analysis revealed that response rate was 62%. Data collected were analysed using both descriptive and inferential statistics. Logistic Regression Analysis method was used to analyse 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.

Temple (2016) surveyed the influence of audit committee size on the quality of financial reporting in quoted Nigerian banks. The study used five year documentary records obtained from the annual financial statements and accounts of fifteen banks whose stocks are traded on the Nigerian Stock Exchange as at December 31, 2014. Correlation research design was utilized and Jones (1991) model, which provided the measure for earnings management, was also used as the representation for quality of financial reporting. Furthermore, the test of hypothesis and other breakdown of data were empirically completed by SPSS statistic

22.0. The outcome of the study depicted that audit committee size has no significant impact on the quality of financial reporting in quoted Nigerian banks. Among others, the study recommended that audit committee size should be considerably large and should constitute a greater number of those that have knowledge of accounting and finance.

From the foregoing empirical review, the inconsistencies in the determinants of audit partner rotation/auditor switching as well as financial reporting quality is established. Whereas some works found evidences of lower financial reporting quality due to audit partner rotation during the first few years of the change, other studies revealed a significant increase in financial reporting qualities consequent upon switching from a small audit firm to a large audit firm. The major explanation for these conflicting results is the location/country where the studies were conducted. This creates a gap and necessitates the conduct of this research in a developing country like Nigeria.

Methodology

The study adopted ex post facto research design. The population for this study consisted of the twenty (20) deposit money banks licensed by the Central Bank of Nigeria as at 31st December, 2018. For systemic and peer assessment, the banks were classified into three groups based on their asset size. Data of quoted deposit money banks for the period commencing from 2012 to 2018 were collected from the annual reports and accounts of the selected quoted deposit money banks to construct a panel data for the purpose of the study. The study also employed inferential statistics (multiple logistic regression analysis) to measure the relationship between a single dependent variable - with 2 levels - (Auditor Switching), and multiple independent variables (Audit Fees, Client's Size, Client's Leverage). Therefore, the study employed maximum likelihood estimate procedure in stepwise logistic regression on all the data to be gathered. The functional specification for the determinants of auditor switching is stated thus:

$$Audswitch = f\,(Audfee, Clsize, Cllev) \ldots\ldots\ldots\ldots (1)$$

The econometric specification for the determinants of auditor switching is stated thus:

$$AUDSWITCHit = \beta 0 + \beta 1 AUDFEEit + \beta 2 CLSIZEit + \beta 3 CLLEVit + \mu it \ldots . (2)$$

By linearization, the following equation is then formulated

$$AUDSWITCHit = \beta 0 + \beta 1 logAUDFEEit + \beta 2 logCLSIZEit + \beta 3 logCLLEVit + \mu it$$

By linearization, the following equation is then formulated:

$$ERNit = \beta 0 + \beta 1 AUDFEEit + \beta 2 logCLSIZEit + \beta 3 CLLEVit + \beta 4 AUDSWITCHit + \mu it (where\ \beta 0 is\ Constant\ and\ \beta 1, \beta 2, \beta 3, \beta 4\ are\ Estimates\ of\ Model\ Parameters)$$

Result of the Findings

The descriptive statistics, showing the mean, standard deviation, minimum and maximum values of each of the explanatory variables of our sample size, consisting of 12 quoted deposit money banks in Nigeria during the period 2012 - 2018, are presented as follows:

Table 1: Descriptive Statistics of Explanatory Variables

Descriptive Statistics	audfee	Clientsize	leverage
Mean	1.72e+08	1.29e+12	1.207711
Standard Deviation	1.18e+08	1.06e+12	4.871013
Minimum	1.20e+07	7.25e+10	0
Maximum	5.10e+08	4.83e+12	44.59509
Skewness	.969772	1.081735	8.587689
Kurtosis	3.419522	3.816115	76.78967

Source: Fieldwork Analysis (2019)

From the summary statistics presented in Table 2, the minimum audit fee incurred by the quoted deposit money banks in Nigeria during the period under review was ₦12,000,000.00 as paid by Stanbic IBTC Plc in the 2012 financial year while Zenith Bank Plc paid the highest audit fee in the year 2017 amounting to the sum of ₦510,000,000.00. Sandwiched between these two extreme values is the average audit fee paid during the period which amounted to 172,288,000.00 (1.72e+08). Zenith Bank Plc topped the chart among all the listed deposit banks in Nigeria in terms of size. Its total assets of ₦4,833,658,000,000.00 constituted the highest and, as such, positioned the bank as the largest bank in Nigeria. On the other hand, Stanbic IBTC Plc was classified as the smallest bank, recording the smallest total assets of ₦72,508,000,000.000 in 2012. The mean size of the banks is 1,287,656,035,761.90. However, this value is largely influenced by the increased number of banks which have attained the status of large banks, many of which are part of our sample size. The minimum leverage (debt/equity ratio) was 0 as calculated for FCMB Plc and Stanbic IBTC Plc while Wema Bank Plc has the highest leverage,

calculated to be 44.6. This signifies that Wema Bank Plc relies heavily on long-term debt in financing its operations.

Table 2: Pearson Correlation Matrix

	Aud switch	Aud fee	Log size	Leverage
Aud switch	1.0000			
Aud fee	-0.2443	1.0000		
Log size	0.0298	0.8384	1.0000	
Leverage	0.0741	-0.0671	-0.1156	1.0000

The correlation matrix gives a preliminary results of the outcome of our regression analysis. According to Table 4, the determinants of auditor switching of quoted deposit money banks in Nigeria such as audit fee, client size and leverage are not significantly correlated, thereby eliminating the problem of multicollinearity.

Multivariate Statistics

In order to achieve the objective of examining the determinants of auditor switching in quoted deposit money banks in Nigeria, the study considered the structure of response variable which consisted of categorical data. Response variables with categorical data require logistic regression to be conducted with the maximum likelihood method as a means of estimation. Moreover, because the data were set up longitudinally, the fixed-effect model, random-effect model and population-average model logistic regressions were conducted in addition to the conventional pooled logistic regression.

Determinants of Auditor Switching

Table 3: Pooled Logistic Regression Estimate

				Number of obs	=	84
				LR chi2(3)	=	23.58
				Prob> chi^2	=	0.0000
Log likelihood=	-29.111276			Pseudo R^2	=	0.2882

Audswitch	Coef.	Std. Err.	Z	P > | z |	[95% Conf. Interval]	
Audfee	-2.25e-08	6.16e-09	-3.65	0.000*	-3.46e-08	-1.04e-08
logsize	4.858118	1.536325	3.16	0.002*	1.846975	7.86926
leverage	.8837537	.9556421	0.92	0.355	-.9892705	2.756778
_cons	-52.60995	16.99733	-3.10	0.002	-85.9241	-19.29581

***Significant at 5% level of significance**

Source: Fieldwork Analysis (2019)

Table 4: Fixed-effects Logistic Regression Estimate

	Number of obs	=	42
Group variable: code	Number of groups	=	6
	Obs per group:		
	min	=	7
	avg	=	7.0
	max	=	7
	LR chi2(3)	=	10.62
Log likelihood = -12.368407	Prob> chi2	=	0.0104

Aud switch	Coef.	Std. Err.	z	P > | z |	[95% Conf. Interval]	
Aud fee	-2.83e-08	1.38e-08	-2.05	0.041*	-5.54e-08	-1.20e-09
Log size	5.14463	2.790693	1.84	0.065**	-.3250289	10.61429
Leverage	-1.05241	1.864877	-0.56	0.573	-4.707502	2.602682

***Significant at 5% level of significance**
****Significant at 10% level of significance**
Source: Fieldwork Analysis (2019)

Table 5: Random-effects Logistic Regression

Random-effects logistic regression	Number of obs	=	84
Group variable: code	Number of groups	=	12
Random effects u_i ~ Gaussian	Obs per group:		
	min	=	7
	avg	=	7.0
	max	=	7
Integration method: mvaghermite	Integration pts.	=	12
	Wald chi2(3)	=	9.80
Log likelihood = -27.391435	Prob> chi2	=	0.0203

Aud switch	Coef.	Std. Err.	Z	P > | z |	[95% Conf. Interval]	
Aud fee	-3.03e-08	1.00e-08	-3.03	0.002*	-5.00e-08	-1.07e-08
Log size	6.401788	2.347043	2.73	0.006*	1.801668	11.00191
leverage	.47904	1.108036	0.43	0.665	-1.692671	2.650751
_cons	-68.77754	25.88902	-2.66	0.008	-119.5191	-18.036
/lnsig2u	.5156145	1.081004			-1.603114	2.634343
sigma_u	1.294089	.6994574			.4486299	3.732848
rho	.3373261	.2416446			.0576514	.8089954

***Significant at 5% level of significance**
Source: Fieldwork Analysis (2019)

Classification by Size of Banks

The quoted deposit money banks in Nigeria are classified into large banks (i.e. banks with total assets of up to ₦1 trillion), medium banks (i.e. banks with total assets of up to ₦500 billion but less than ₦1 trillion) and small banks (banks with total assets valued at less than ₦500 billion). After estimating the models for all the listed banks in the sample size as presented above, the study estimated the baseline models for each category of these listed banks for the purpose of investigating the stability of the coefficients. We conducted a regression analysis for each of these categories of banks during the period under review (2014 - 2019) in order to examine the respective determinants of their auditor switching. This approach of conducting additional regression analysis is further justified by the need to isolate the effects of audit fee, client size and leverage on auditor switching since the sample size includes all the Central Bank of Nigeria's identified categories.

Table 6: Logistic Regression for Small-sized banks

Number of obs = 25
LR chi2(3) = 18.62
Prob> chi2 = 0.0003
Log likelihood = -4.4667788 Pseudo R2 = 0.6758

Aud switch	Coef.	Std. Err.	Z	P > | z |	[95% Conf. Interval]	
Aud fee	-2.55e-07	1.39e-07	-1.83	0.067**	-5.28e-07	1.74e-08
Log size	1.082959	6.609007	0.16	0.870	-11.87046	14.03638
leverage	42.81231	21.90648	1.95	0.051**	-.1236009	85.74823
_cons	-5.842533	71.4611	-0.08	0.935	-145.9037	134.2187

****Significant at 10% level of significance**
Source: Fieldwork Analysis (2019)

Table 7: Logistic Regression for Medium-sized banks

	Number of obs	=	18
	LR chi2(3)	=	1.17
	Prob> chi2	=	0.7608
Log likelihood = -3.2783339	Pseudo R2	=	0.1511

Aud switch	Coef.	Std. Err.	Z	P > | z |	[95% Conf. Interval]	
Aud fee	-6.88e-09	2.93e-08	-0.24	0.814	-6.42e-08	5.05e-09
Log size	-11.85254	27.25024	-0.43	0.664	-65.26202	41.55695
leverage	3.792416	6.861805	0.55	0.580	-9.656475	17.24131
_cons	143.9584	324.594	0.44	0.657	-492.2341	780.1509

Source: Fieldwork Analysis (2019)

Table 8: Logistic Regression for Large banks

	Number of obs	=	41
	LR chi2(3)	=	15.51
	Prob> chi2	=	0.0014
Log likelihood = -13.822915	Pseudo R2	=	0.3594

Aud switch	Coef.	Std. Err.	Z	P > | z |	[95% Conf. Interval]	
Aud fee	-2.85e-08	1.39e-08	-2.06	0.039*	-5.57e-08	-1.38e-09
Log size	8.399694	7.453611	1.13	0.260	-6.209115	23.0085
leverage	-.4482908	1.185899	-0.38	0.750	-2.77261	1.876028
_cons	-93.63504	88.5032	-1.06	0.290	-267.0981	79.82805

***Significant at 5% level of significance**
Source: Fieldwork Analysis (2019)

Discussion of Results

From the results presented, the audit fees paid by quoted deposit money banks in Nigeria has a coefficient of -2.25e-08. This negative coefficient depicts an inverse relationship between audit fees and auditor switching. What this implies is that, as the audit fees charged by the external auditor's increases, listed banks switch their auditors. From the aforementioned results, it is revealed that a unit increase in the audit fees within a three-year period (as defined in our variable measurement in the preceding section) of the auditor's engagement will necessitate their switch by the client banks. Interestingly, this inverse relationship between audit fees and auditor switching is true in all categories of banks in Nigeria, be it the small-sized banks, medium-sized banks or the large banks as

evidenced in the logistic regression estimates. Moreover, the estimates from our Fixed-effect model and the Random-effect model are all in agreement with this result. This result is also consistent with the works of Khasharmeh (2015), which concluded that the rise of audit fees will make the client change the auditor. In view of the statistical significance of the coefficients as could be verified from the standard error and the probability value of the coefficient of audit fee (audfee), the result showed that audit fee is statistically significant considering that the probability value of audfee (p=0.000) is less than 5%. Therefore, we fail to reject the alternate hypotheses which states that there is a significant relationship between audit fee and the auditor switching of quoted deposit money banks in Nigeria.

From the results, the size of quoted deposit money banks in Nigeria has a coefficient of 4.858118. Thus, there is a positive relationship between the size of banks, measured by the value of the banks' total assets and auditor switching. What this implies is that, large banks tend to maintain a stable relationship with their auditors, sticking with the same auditors for (at least) three years, and beyond while small banks are prone to auditor switching. Moreover, this positive relationship between client size (as represented by logsize) and auditor switching exists in our estimates for the Fixed-effect model, Random-effect model and Population-average model. In view of the statistical significance of the coefficients as could be verified from the standard error and probability value of the coefficient of client size (logsize), the result showed that client size is statistically significant considering that the probability value of logsize (p=0.002) is less than 5%. Therefore, we fail to reject the alternate hypotheses which states that there is a significant relationship between client size and auditor switching of quoted deposit money banks in Nigeria.

From the results presented, the leverage of quoted deposit money banks in Nigeria has a coefficient of .8837537. This implies that, listed banks with high debt/equity ratio are prone to switching their auditors. It is interesting to note that this result became clearer and more revealing when the banks are segregated and different logistic regression analysis were conducted for the various categories of banks. In the results for Logistic Regression Analysis for Small-sized Banks, the coefficient for small banks increased to 42.81231, indicating that listed banks with total assets of less than ₦500 billion have a high debt/equity ratio, hence they depend more on long-term loan to finance their operations. A high leverage is a pointer to the financial/liquidity stress affecting the banks. The finding supports the conclusion of Onaolapo (2017) who observed that previous studies indicate that the greater the leverage, the greater the perceived risk associated with the client. The probability value of the results of the estimation conducted in the small-sized banks is statistically significant (p=0.051) at the 10% level of significance. The coefficient value

slumps to 3.792416 and a p-value of 0.580 from the results of the logistic regression for medium-sized banks. Furthermore, the coefficient value steeps to -.4482908 and its sign turned negative in large banks. This result is in tandem with the works of Fadaly (2018); Temple (2016) and Olowookere and Adebiyi (2013) which revealed a less significant relationship between financial distress and the specific type of auditor switches. In view of the statistical insignificance of the probability value of the coefficient of leverage (*leverage*), the result showed that leverage is *not* significant considering that the probability value of *leverage* (p=0.350) is higher than 5% level of significance. Therefore, we fail to reject the null hypotheses which states that there is *no* significant relationship between leverage and the auditor switching of quoted deposit money banks in Nigeria.

Conclusion

Audit fees proved to be a major determinant of auditor switching in all categories of banks, be it the large-sized banks, medium-sized banks or small-sized banks. To support this finding, this study obtained consistent results in the pooled regression estimate, fixed-effect regression estimate and random-effect estimated as banks tend to change their auditors whenever there is a rise in audit fees. Whereas small-sized banks are prone to changing their auditors apparently due to higher audit fees. There is stability in the relationship between large-sized banks and their auditors. Thus, large-sized banks maintain a longer relationship with their auditors. The continued provision of audit services by the same auditors for a longer time has enormous benefits as it affords the auditors the opportunity to better understand the business environment of the clients and the industry in which they operate. In conclusion, the results from the study showed that audit fee is a determining factor of whether banks should change/rotate their auditors or otherwise. Small-sized banks did switch their auditors within 3 years during the period of this study, but large-sized banks maintained the same set of auditors for a relatively longer period of time spanning 3 years and beyond. Nevertheless, the size of the banks did not in any way influence the quality of financial statement. We further conclude that large and medium-sized banks maintained a lower debt-equity ratio as against the small-sized banks with a higher leverage which makes such small banks to be prone to switching their auditors and also manipulate their earnings.

Recommendations

Based on the results obtained from our study, the following recommendations made:

1. Banks, of all categories, should pay audit fees commensurate to the quality of professional services to be provided by their auditors. Directors of banks should not be discouraged in paying the required audit fees, as higher audit fees enable the

auditors to engage and deploy versatile and experienced auditors during the audit of the annual reports and accounts of the banks while at the same time ensuring sufficient time will be spent in producing top quality audit services.

2. Following (i) above, a relatively stable relationship between auditors and the banks affords the auditors the time to understand the business terrain of the banks and the industry in which such banks operate. A better understanding of this operating environment by the auditors is a huge benefit to the banks being audited.

3. Banks should rely less on long-term loan in the financing of their operations as a higher debt-equity ratio leads to higher interest to be paid to the providers of such loans. As already established by various theories, a highly geared firm will eventually incur a higher cost of fund due to the high interest to be paid to debenture holders. This will subsequently make the ordinary shareholders to demand for a higher return on their investments too.

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