

THE IMPACT OF AUDIT FIRM SIZE AND AUDIT TENURE ON AUDIT QUALITY

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ABSTRACT

The study investigates the influence of audit firm size and audit tenure on audit quality in Nigeria. Secondary data were utilized for the study. The data were sourced from the financial statements of manufacturing companies listed on the floor of Nigerian Stock Exchange (NSE) within the period ended (2012 - 2016). Logistic regression was used to test the model for the study. The choice of this technique was basically attributed to the dichotomous nature of the dependent variable (audit quality). The results suggest positive relationships between audit firm size and audit quality, and negative relationship between audit tenure and audit quality. It is obvious from the study that it is only audit firm size among the predictors that significantly predict audit quality. The study, therefore, enjoined non-Big audit firms to take advantage of modern audit facilities and invest more in training and development of staff with a view to competing favourably in the audit market with the big audit firms.

1 Introduction

A number of studies have been carried out examining various factors affecting audit quality such as the size and/or the specialization of audit firms, audit tenure, type of auditor and auditor independence. But the results have not been consistent and conclusive. For example, some of these studies have provided evidence to show that audit firm size has positive relationship with audit quality and audit tenure is negatively related to audit quality (DeAngelo, 1981; Francis, 2004; Adeyemi, Okpala & Dabor, 2012). While other studies have not found

significant relationships between audit firm size, audit tenure and audit quality (Al-Thuneibat, Al-Issa & Baker, 2011; James & Izien, 2014). This suggests that it is important to further investigate the factors affecting audit quality due to its significance to the accounting/auditing profession. Apparently, the efforts to maintain and improve audit quality are the key factors enhancing the integrity of auditing profession.

Audit adds credibility to the financial information by providing an independent verification of management provided financial

reports, thus reducing investors' information risk (Watts & Zimmerman, 1986; Dye, 1993). Audit of financial records and accounts by external auditors are considered an important external corporate governance mechanism to control management excesses and thus reduce agency conflicts between corporate managers and stakeholders by improving the quality of financial reporting (Ajibolade & Uwuigbe, 2013). The quality of such audit is crucial in determining the credibility and reliability of financial statements. The success and long-term survival of audit firms mainly depend on their ability to provide dependable and high quality services for their clients.

Based on his review of 25 years of empirical audit quality research, Francis (2004) concludes that the most significant development in audit quality research is grounded in the assumption that differences in audit quality exist and can be inferred by comparing different groups of auditors. The main basis of differentiation is between large and small auditors (typically the Big 4 versus the non-Big 4). The collective evidence is strongly supportive of larger audit firms providing higher quality audit than smaller firms. It is observable that virtually all quoted and blue chip companies in Nigeria employ big audit firms for the audit of their financial statements. The tendency to employ the Big 4 firms on the belief that they provide higher quality audit services may not be tenable due to series of scandals and audit failures that led to the collapse of Enron and the demise of Arthur Andersen. The collapse of Arthur Anderson left only four major firms dominating the global audit market and resulted in loss of confidence in audit quality which affected the remaining firms and created concerns about competition and choice for major companies using audit services (e.g. General Accounting Office, 2003; FRC, 2008).

The public practice of accounting is globally dominated by the Big 4 firms: Deloitte, PricewaterCoopers, Ernst & Young, and KPMG. The Nigerian environment is not insulated from this dominance. Given the nature of the Nigerian audit market and its dominance by the Big 4, and willingness of Nigerian companies to retain auditors for long period of time; it is important to investigate whether big firm auditors deliver superior quality audit and the extent to which audit tenure influence audit quality.

1.1 Statement of the Problem

Users of financial statements are seriously concerned with the quality of audit reports following corporate scandals and sudden collapse of some industrial giants e.g. Enron, Lehman Brothers, World Com and Global Crossing in the US; Maxwell, BCCI and Equitable Insurance in the United King, Parmalat in Italy; Lever Brothers, Cadbury Nigeria Plc, African Petroleum Plc, Oceanic bank and many other banks in Nigeria. The number of instances of financial statement frauds together with other unethical practices and failure of auditors to discover them are shocking and disheartening (Amat & Gowthorpe, 2009). It is interesting to know that the aforementioned companies had been audited by the Big 5 firms and were given clean bill of health immediately before the collapse. Furthermore, it is noteworthy that most of the companies retained their auditors for many years.

The impact of audit firm size and audit tenure on audit quality has long been an area of concern. This concern has been compounded by increasing high demand for the services of the big firms by corporate organizations and their natural inclination to retain their auditors. The large audit firms seem to have a field day in the audit market; at the receiving end are the small and medium size firms. There seems to be monopolistic

audit market in favour of the big firms in Nigeria. This study is motivated by the need to determine whether big firm auditors provide higher quality audit services in Nigeria; otherwise corporate organizations should be made to appreciate and employ the services of small and medium size audit firms. Therefore, the question is whether audit tenure and audit firm size have any impact on audit quality in Nigeria.

The objectives of this study are to:

- (i) Examine the extent to which audit firm size influence audit quality.
- (ii) Investigate the extent to which audit tenure influence audit quality.

The research hypotheses are:

H₁: Audit tenure has no significant impact on audit quality

H₂: Audit firm size has no significant impact on audit quality

2. Literature Review

2.1 Theoretical Framework

This study is driven by stakeholder theory. The theory posits that the essence of corporate activity is not only for the benefit of the shareholders, but also for the benefit of all relevant stakeholders and it is all these relevant stakeholders who should be the main focus of the modern firm (Freeman, 1984; Cadbury 1992). The stakeholder theory is credited to the work of Freeman (1984). It argues that firms should be managed in such a way that they coordinate the diverging interests of the numerous stakeholders which include shareholders, lenders, customers, suppliers, employees, the government and the society in general. This should be taken into consideration in the formulation of corporate strategy of the organization as a whole.

Stakeholder theory looks at the relationship between an organization and others in its internal and external environment. The theory suggests that the purpose of a business is to create as much

value as possible for stakeholders, not just to maximize shareholders' wealth. In other words the theory suggests that whilst businesses pursue the main objective of shareholder value maximization, they should be aware of their responsibility to society by being obedient to the law and being ethical, this is the "constrained profit making" view of the firm. Thus, the stakeholder theory serves as a framework for this study.

2.2 Audit quality

The issue of audit quality has received significant attention from regulators, policy makers, the accounting and auditing profession, and the general public following much publicized high profile corporate scandals and audit failures which have now become a serious matter of concern all over the world. Despite increased research interest in audit characteristics contributing to audit quality; an agreed definition of audit quality remains elusive. Knechel, Krishnan, Pevzner Shefchik and Velury (2013) remark that there is little consensus on the definition of audit quality and the various frameworks and disclosures that exist are incomplete. From the regulator's perspective, the Institute of Chartered Accountants in England and Wales (2002) suggests a definition for audit quality by stating that "audit quality is about delivering an appropriate professional opinion supported by the necessary evidence and objective judgments." As long as the auditors provide an independent audit opinion that is supported by adequate audit evidence, the regulator assumes that such auditors have performed a quality audit service.

The importance of audit quality has been confirmed by research; result of studies have revealed that high audit quality helps to reduce the cost of capital and increases access to equity financing, as well as having economic consequences for auditors, audit firm clients and capital market participants (Chang,

Dasgupta & Hillary, 2009; Pitman & Fortin, 2004). Khurama and Raman (2006) remark that users' perception of audit quality is crucial to public trust and confidence in a firm's reported financial information.

Audit quality has been defined as the joint probability that an existing material error is detected and reported by an auditor (DeAngelo, 1981). It is simply the ability of an auditor to provide an independent audit free from misstatement, error and fraud. It is also viewed as the accuracy of the information reported on by auditors and the probability that an auditor will not issue an unqualified report for statement containing material errors (Lee & Gu, 1999). According to Okaro and Okafor (2009) audit quality simply refers to confidence in the audit function, the reliability and usefulness of corporate reporting, and the overall value that the company and its stakeholders derive from the audit process.

From the perspective of the audit profession, audit quality is about delivering an appropriate and independent professional opinion on financial statements that is supported by the necessary evidence and objective judgment. To achieve this objective, the auditor must comply not only with audit requirements but also with ethical requirements to ensure integrity, objectivity, professional competence and due care, confidentiality and professional behaviour (FRC 2008). Audit quality is normally related to the ability of the auditor to identify material misstatement in the financial statements and their willingness to issue an appropriate and unbiased audits report based on the audit results (Turley & Willekens, 2008).

2.3 Audit Tenure and Audit Quality

The concern about audit tenure and audit quality is not unconnected with the spate of accounting scandals and corporate failures, and unethical behaviour of some auditors. In

relation to these accounting scandals, it has been observed that most of the auditors had long-standing relationship with the corporate organizations (Chia-Ah & Karlsson, 2010). Tepalagul and Lin (2014) state that there are two opposing views on the effects of auditor tenure on audit quality. One states that as the auditor-client relationship lengthens, the auditor may develop a close relationship with client and become more likely to act in favour of management, thus reducing audit quality. This view supports mandatory audit partner rotation. The other view is that as auditor tenure lengthens, auditors increase their understanding of their clients' businesses and develop their expertise during the audit resulting in higher audit quality.

Audit tenure simply refers to the number of consecutive years that the audit firm has audited the client. It has been argued that long-term audit-client relationship results in making the auditors to become more complacent and slack in their role as an attester (Lu & Sivaramakrishnan, 2009; Johnson et al. 2002). Supporters of mandatory audit firm rotation argue that the incumbent auditor either faces pressures from its client or their long term relationship makes the auditors feel more comfortable, and thus affecting the operations of auditors in an adverse manner to deal with the issue related to the financial reporting which can affect the financial statements in its materiality. The opponents of the mandatory audit firm rotation are of the opinion that the new auditor lacks the knowledge of the client-firm's operations, information systems and practices of financial reporting; thus making the relationship complex during the initial years by increasing the time required to gain firm-specific knowledge along with the risk of not detecting the material errors in the financial reporting of the firm (General Accounting Office, 2003).

Piri, Sheikhmohammadi, Jafari and Lofti (2014) investigated the relationship between auditor's tenure and audit quality in companies listed in Tehran Stock Exchange by using abnormal accruals as proxy for audit quality. The results indicated that auditor's tenure is negatively related to audit quality. This supported the findings of Abedalgader, Ibrahim and Baker (2010). Adeniyi and Mieseigha (2013) also examined the relationship between audit partners tenure and audit quality. Their results showed a negative relationship between auditor tenure and audit quality. In the same vein, Nashwa (2004) investigated the relationship between long term auditor-client relationships and found that risk increase early in the auditor-client relationship and declines overtime.

2.4 Audit Firm Size and Audit Quality

Francis' (2004) detailed review of audit quality research is increasingly being cited as a paper that says we know quite a bit about audit quality and that the overall picture in terms of auditor performance, at least in larger firm, is pretty positive. He pushes hard to argue that larger audit firms provide higher quality audit than smaller firms. Several other studies that dealt with US cases have enriched the literature with remarkable evidence on the improved credibility of financial reports resulting from Big 4 audits (Khurana and Raman, 2004; Pittman & Fortin, 2004). Dopuch and Simunic (1982) correlated this to the greater observable quality characteristics large audit firms possess, such as quality control and specialized training.

Al-Thuneibat, Al-Issa and Baker's (2011) empirical findings did not reveal that the audit firm size has any significant impact on the correlation between audit firm tenure and audit quality. Kilgore, Martinov-Benni and Wright (2014) studied the drivers of audit quality by examining the perceptions of Australian Chief Financial Officers (CFOs). The

results of the study showed that CFOs perceive audit firm size to be the attribute with the most impact on audit quality. Some authors and researchers have argued that large firms can devote much investment to the provision of training courses and other resources necessary to ensure their staff are competent, able to audit to a high standard, and are less likely to compromise by actions of clients (Lawrence, Minuti-Meza & Zhang, 2011; Mgbame et al., 2012). The literature on audit firm size has generally concluded that firm size has an impact on audit quality, with quality improving as the size of the firm increases (DeAngelo, 1981; Lawrence et al., 2011).

Nonetheless, the literature has revealed that some studies have not found a relationship between audit firm size and measures of quality (Imhoff, 1988). Furthermore, the American Institute of Certified Public Accountants (AICPA, 2002) argued that audit quality is independent of firm size, while Krishnan (2005) has consistently argued that audit quality differs between and within audit firms. In the final analysis the collapse of Arthur Andersen seem to indicate that it is individuals who are responsible for providing audit quality rather than audit firms as found by Fearnley, Brandt and Beattie (2005).

2.5 Audit Fees and Audit Quality

Audit fees relate to all charges a company pays to the external auditors for audit services rendered to the company. Suharli and Nurlaelah (2008) define audit fee as the fee charged by a public accountant to the client for the financial audit services. Several studies suggest that higher audit fees are associated with higher audit quality in order to compensate for the high-price reputation capital, auditor's industry specialization as well as for increased audit effort (Simunic, 1980; Palmrose, 1986). Palmrose (1986) alleges that

the Big 8 auditors charge high audit fees for two reasons. They include (i) higher audit quality (ii) monopoly price. Yuniarti (2011) examined the determinant factors of audit quality by proposing the hypothesis that the audit firm size and audit fees have an effect on audit quality. The result showed that audit fees significantly affect the quality of audit.

Francis and Simon (1987) assume that audit services are quality-differentiated and that in a competitive market, quality differences are reflected in fees. Previous study which reviewed empirical research over the past 25 years, mainly from the United States, in order to assess what we currently know about audit quality concludes that a higher audit fees implies higher audit quality (Francis, 2004). Some authors have argued that managers and entrepreneurs are willing to pay higher fees to receive what are perceived to be higher quality audits (Al-Khaddash, Al-Nawas & Ramadan, 2013). This implies that audit client, just like consumers, can use price as an indicator of quality.

2.6 Audit Committee and Audit Quality

Audit committee remains one of the most important governance mechanisms that has been suggested for improved corporate transparency, accountability and reporting quality of business organizations. Studies suggest that the size of composition, expertise, and meeting frequency of audit committee may impact their monitoring effectiveness (Abbott, Parker & Peters, 2004). DeZoort (1998) argues that an audit committee members' experience in accounting and auditing is necessary for a sufficient understanding of oversight tasks. According to the UK Corporate Code (2010), "the board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience".

Extant literature has revealed that audit committee independence is significant in

ensuring the integrity of the financial reporting process (Jeffrey et al. 2011). Several studies also suggest that independent audit committee is less likely to be associated with financial statement frauds and more likely to be associated with lower earnings management (Abbott et al., 2004).

3 Research Methodology

Survey research design was used in this study. This research strategy is chosen because of its effectiveness in assessing the relationships and the effects of two or more variables (the dependent and independent variables). Thus, the research design is consistent with the objectives of the study

The population of the study consists of all listed manufacturing companies on the floor of the Nigeria Stock Exchange for the period 2012 - 2016. Random sampling method was employed in this study. The following are the sample criteria and requirements:

- (i) The firm's shares should be listed for trading on the floor of the Nigerian Stock Exchange during the years (2012 - 2016)
- (ii) The firm's financial statements must be available for the year (2012 - 2016) to provide for the financial data needed to calculate the variables of the study
- (iii) The firm should not have undergone an extraordinary event, such as merger or acquisition or other similar transactions that might result in re-organization of the firm's business segments and as a result affect the entity and its financial statements
- (iv) The firm must not have been delisted throughout the period of the study. This is to ensure data availability and accessibility.

A sample size of (10) companies that satisfied the above criteria and requirements were

used for the study. The data collected were analyzed using both descriptive and inferential statistics. The hypotheses formulated for the

study were tested with the use of multivariate regression technique. The logistic regression for this study takes the form:

$$\text{AUDQUAL} = b_0 + b_1 \text{AT} + b_2 \text{AFS} + b_3 \text{AUDF} + b_4 \text{AUDCOME} + b_5 \text{AUDCOMIND} + E_i$$

Where: AUDQUAL= Audit Quality; AT= Audit Tenure; AFS= Audit firm size;

AUDF=Audit fees AUDCOME = Audit committee Expertise;

AUDCOMIND = Audit committee independence; E_i = Error term.

$b_0, b_1, b_2, b_3, b_4, b_5$ = Regression Coefficients; $b_1, \dots, b_5 > 0$

The variables in the model are operationalized in Table 3.1 below:

Table 3.1 Measure of variables

S/No	Variable	Definition	Types	Measurement
1.	AUDQUAL	Audit Quality	Dependent variable	If audited by the Big 4 '1' and '0' otherwise.
2.	AT	Audit Tenure	Independent variable	Length of auditor-clients relationship measured in years.
3.	AFS	Audit Firm Size	Independent variable	Natural log of audit fees.
4.	AUDF	Audit Fees	Independent variable (Control)	Audit fees reported in the financial statements
5.	AUDCOME	Audit Committee Expertise	Independent variable (Control)	Number of financial/accounting experts held in audit committee
6.	AUDCOMIND	Audit Committee Independence	Independent Variable (Control)	The proportion of non-executive directors in audit committee

4 Data Analysis and Presentation of Results

4.1 Results of the analyses

The results of the analyses are presented in Table 4.1 – 4.3.

Table 4.1: Descriptive Statistics

	N	Min.	Max.	Mean	Std. Deviation
AUDQUAL	50	00	1.00	.7000	.46291
AT	50	1.00	5.00	2.8800	1.42342
AUDF	50	3,400.00	45,801.00	20,495.78	10,988.46
AFS	50	1.26	1.54	1.4415	.06765
AUDCOMIND	50	5.00	6.00	5.4000	.49487
AUDCOME	50	3.00	6.00	4.3000	.90914

Source: Computation Derived from SPSS by the Author (2017)

Table 4.2a: Omnibus Tests of Model Coefficients

	Chi-square	Df	Sig.
Step 1	43.665	2	.000
Block	43.665	2	.000
Model	43.665	2	.000

Table 4.2b: Model Summary

Step	-2 Log Likelihood	Cox & Snell R Square	Nagelkerke R Square
1	17.421	.582	.826

Table 4.2c: Hosmer and Lemeshow Test

Step 1	Chi-square	Df	Sig.
1	1.532	8	.992

Table 4.2d: Classification Table

Observed Step 1 Audit Quality Non Big 4 Big 4	Predicted		
	Audit Quality		Percentage Correct
	Non Big 4	Big 4	
	12 3	3 32	80.0 91.4
Overall percentage			88.0

Table 4.2e: Variables in the Equation

	B	SE	Wald	Df	Sig.	Exp B	95% CI for Exp (B)	
							Lower	Upper
Step 1 AT	-.941	.552	2.907	1	.088	.390	.132	1.151
AFS	80.917	34.067	5.642	1	.018	1.38	1.03	1.37
AF	.001	.000	3.136	1	.077	1.010	1.000	1.020
ACI	2.478	1.786	1.924	1	.165	11.914	.360	394.782
ACE	1.261	1.376	.840	1	.360	3.528	.238	52.334
Constant	-111.040	46.931	5.598	1	.018	.000		

- a. Variables entered on step 1: Audit tenure, Audit firm size, Audit fees, Audit committee independence, and Audit committee expertise.

From table 4.2b, the first thing to note is that the -2LL is 17.421 which is a change of 43.665 (which is the value given by the model chi-square). The change in the amount of information explained by the model is significant ($P < .05$) and so using audit tenure and audit firm size, significantly improve our ability to predict audit quality. The value of Nagelkerke R square is .826; that is 82.6% of audit quality can be explained by the variables under study.

Table 4.2c is the SPSS output of Hosmer and Lemeshow Test. The important part of

this test is the test statistic itself (1.532); that is the value of the chi-square and the significance value (.992). The statistic tests the hypothesis that the observed data are significantly different from the predicted values from the model. There is a non-significant value for this test which is indicative of a model that is predicting the real world data fairly well. Table 4.2d, the classification table, reveals that 88% of cases can be correctly classified by the model.

Table 4.2e shows the variables in the equation. The significance value of the Wald

Statistics for audit firm size indicates that audit firm size significantly predicts audit quality; thus, the first hypothesis (H1) cannot be retained. The value of Exp B (1.38) indicates that if there is an increase in the size of audit firm, then the odds of improving audit quality also increase because Exp B is greater than one (1). The confidence interval for this value ranges from 1.03 - 1.37. Because both values are greater than 1, we can also be confident that the relationship between the audit quality and audit firm size found in this sample is true of the whole population of manufacturing companies in Nigeria.

The significance value of the Wald Statistics for audit tenure reveals that audit tenure is statistically non-significant in predicting audit quality; thus, the second hypothesis (H2) is retained. The value of Exp B (.390) for audit tenure indicates that if audit tenure increases by one year, then the odds of improving audit quality may decrease because Exp B is less than one (1). The confidence interval for this value ranges from .132 - 1.151. This limits the generalizability of the findings because the value Exp B in the population could indicate either positive (Exp B > 1) or negative (Exp B < 1) relationship.

It is interesting to know that the significance values of the Wald Statistics for

each control variables (audit fees, audit committee independence, and audit committee expertise) are statistically non significant in predicting audit quality. However, the value of Exp B (11.914) for audit committee independence suggests that if the level of audit committee independence goes up, then the odds of improving audit quality also increases. It is worth noting that the confidence interval for this value ranges from .360 - 394.782. Hence, this limits the generalizability of the finding. Moreover, the Exp B (3.528) for audit committee financial literate also indicates that if the percentage of members of audit committee who are financial expert or literate increases, then the odds of improving audit quality also increase.

Suffice to say that multicollinearity can affect the parameters of a regression model. So logistic regression is equally prone to the biasing effect of multicollinearity and it is essential to test for colinearity following a logistic regression analysis. Unfortunately, SPSS does not have an option for producing colinearity diagnostics in logistic regression. Thus, testing for multicollinearity is performed by simply running a linear regression analysis using the same outcome and predictors. The results of the linear regression analysis are shown in table 4.3 (a-b).

Table 4.3a: Coefficients

Model	Colinearity Statistics	
	Tolerance	VIF
1		
Audit tenure	.916	1.092
Audit firm size	.117	8.549
Audit fees	.116	8.644
Audit committee independence	.731	1.368
Audit committee expertise	.690	1.450

a. Dependent Variable: Audit Quality

Table 4.3 b: Colinearity Diagnostics

Model Dimension	Eigen-value	Condition index	Constraint	AT	AFS	AF	AC1	ACFL
1	5.632	1.000	.00	.00	.00	.00	.00	.00
2	.174	5.691	.00	.01	.00	.11	.00	.01
3	.152	6.085	.00	.97	.00	.01	.00	.00
4	.039	11.993	.00	.00	.00	.00	.03	.52
5	.003	41.788	.02	.01	.02	.01	.95	.37
6	.000	206.324	.98	.00	.98	.86	.01	.09

From Table 4.2a the tolerance values for each of the variables is greater than .1; Menard (1995) suggests that a tolerance value less than .1, almost certainly indicates a serious colinearity problem. Meyers (1990) also suggests that a VIF value greater than 10 calls for concern and in these data the values are less than 10 for each variable. It seems from these values that there is no issue of colinearity between the predictor variables.

4.2 Discussion of Findings

This study empirically examines the impact of audit firm size and audit tenure on audit quality. Results of the study suggest a positive relationship between audits firm size and audit quality. It is clear from the results that audit firm size significantly predicts audit quality. The findings of the study are consistent with the works of Francis (2004), DeAngelo (1981), Lawrence et al. (2011), Yuniati (2011), and Mgbame et al. (2012). However, the results seem to contradict the findings of James and Izien (2014) which indicate that audit firm size has likelihood to reduce audit quality. The collapse of Arthur Andersen cited by James and Izien (2014) seems to indicate that it is individual who are responsible for providing audit quality rather than audits firms as found by Fearnley et al. (2005). It is interesting to know that the demise of Enron is mainly attributed to greed and unethical practices of the management of the company and the audit partners.

Results of the study reveal negative relationship between audit quality and audit tenure though statistically insignificant. This corroborates the findings of Abedalgader et al. (2010), Adeniyi and Miesiegha (2013), James and Izien (2014), Piri et al. (2014), and Mgbame et al. (2012). However, the results are not consistent with the findings of Johnson et al. (2002), Lu and Sivaramakrishnan (2009). It is observable that no audit firm wants to lose any of its clients, especially the blue chip companies. This may not be unconnected with the difficulty of getting a new client and the cut throat competition in the audit market. The desire to retain their clients for a long period of time or indefinitely by audit firms appears to impair their independence and reduce audit quality. This seems to explain why long audit tenure has negative relationship with audit quality.

The control variables audit fees, audit committee independence and audit committee expertise exhibit non significant positive relationships with audit quality. The inference to draw from this position is that higher audit fees, independent audit committee (audit committee with higher number of non-executive directors), and audit committee with higher number of members who are financial literate are likely to be associated with higher audit quality. These results buttress the opinions and findings of previous researchers (Jeffrey et al. 2011; Abbott et al. 2004; Francis, 2004, DeZoort, 1998). Hence, audit fees, audit committee

independence and audit committee expertise seem to play crucial roles in overseeing the audit process and improving audit quality.

5 Conclusion and Recommendations

5.1 Conclusion

The primary objective of this study is to examine the influence of the size of the audit firm and the length of the audit firm-client relationship on audit quality. Results from the study indicate a positive relationship between audit firm size and audit quality. The study provides empirical evidence to show that audit firm size significantly predicts audit quality. However, the results of the study show negative relationship between audit tenure and audit quality. This suggests that as auditor tenure lengthens it may have adverse effects on audit quality. Furthermore, the study reveals positive relationships between each of the control variables and audit quality though the predictive power of each of the control variable is statistically insignificant.

5.2 Recommendations

Based on the findings of this study, the following recommendations are made:

- (i) The study provides evidence to suggest that the tendency to employ big audit firms may not be unconnected with higher quality audit services provided by them. The non-big audit firms are therefore enjoined to take advantage of the modern audit facilities and software and invest massively in training and development of staff in order to compete favourably with the big audit firms in the audit market.
- (ii) Results of the study suggest that the higher the audit tenure the lower the quality of audit; therefore, the study supports advocates of mandatory audit rotation with a view to improving audit quality.
- (iii) The study also provides evidence to show positive relationship between the control variables and audit quality; thus there is need to ensure that all members of audit committee are financial literate and independent with a view to enhancing audit quality. Moreover, audit fees should be adequately, reasonably and objectively determined or fixed in order to encourage quality audit services.

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