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EFFECT OF AUDITOR INDUSTRY EXPERTISE ON AUDITOR'S LIABILITY OF LISTED FINANCIAL FIRMS IN NIGERIA

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Super O. Sagin[1] Okenwa Cy. Ogbodo[2]

[1]Research Scholar, [2]Professor
Department of Accountancy, Nnamdi Azikiwe University, Awka, Nigeria
1. Email: just4super@yahoo.com
2. Email: cyogbodo2016@yahoo.com

ABSTRACT:

This study examined the effect of audit industry expertise on auditor's liability of listed financial firms in Nigeria. It has become quite worrisome that investors are finding somewhat difficult to make reliable and informed financial decisions that will have positive impact on businesses due to the apparent lack of audit quality. Specifically, the study seeks to determine the effect of audit fees, audit firm size and auditor's tenure on audit litigation. The study relied on secondary data source, which extract from the 2012 – 2022 financial statements of 49 financial firms listed on the Nigerian Exchange Group as at 31st December, 2022, were further exposed to statistical analysis using the OLS multiple regression with the aid of E- View 10 output statistical software. Findings obtained showed that audit fees and larger audit firm size were significantly associated with a lower likelihood of audit-related litigation, while auditor's tenure was not found to have a significant effect on audit-related litigation. It was therefore recommended that audit firms should increase its audit fees, even stakeholders should consider the audit firm size when evaluating the financial statements of firms and better reputation which can help to reduce the likelihood of audit-related litigation. Moreso, auditing firms should focus on other factors such as the quality of the auditor's work and the reputation of the audit firm, when assessing audit quality. With these, auditing practices can become consistent and effective, regardless of expertise and/or the length of time an auditor has been with a particular firm.

1. INTRODUCTION

Fraudulent financial reporting practice is a phenomenon that cannot be overlooked in contemporary auditing practice due to several incidences of financial reporting scandals that rocked big public companies such as Enron, WorldCom and others. Many have adduced these happenings to auditors (Mgbame, Eragbhe & Osazuwa, 2012). Most companies in the face of scandals switched to high litigation firms (Big Four) because of its perceptions that high litigation firms produce quality reports especially it faces more loss of public image when compared with firms having little litigation status. Frauds common to these firms among which are manipulation of sales management, negligent to record debt, postponement of written-off, and intentionally reported false financial statements et cetera. Following these phenomena, the accounting profession has always had trouble defending its audit quality against critics on why an audit conducted in accordance with professional standards might fail to detect a material misstatement of financial statements caused by fraud (Bragg, 2020). High-quality audit is very useful to produce reliable financial statements due to the high-quality auditing process could force the management whom intends to conduct fraud to implement the international financial reporting standard (IFRS) guidelines correctly. Therefore, reliable financial statements should show the highest quality of the auditors behind them, because the compliance with auditing standards is an auditor's professional responsibility in the audit of historical financial statements. In the detection of fraud, an audit industry expertise can perform an audit procedure for detecting fraud much better than non- audit industry expertise, and that no matter how good the availability of auditing procedures it solely depends with the level of auditor's industry expertise from the individual auditor during the audit process to reduce the level of fraudulent practices which in return will reduce auditor's liabilities in Nigeria companies (Balsam et.al 2003).

Audit firms seek to specialize in certain industries for several reasons including enhancing the quality of audits and achieving lower average costs through transfers of knowledge about audit risks and processes across similar clients (Reichelt & Wang 2020). Auditor's industry expertise are consistency and complexity significant determinants of auditor specialization and concentration. Auditors are more likely to specialize in industries with greater homogeneity among clients' operations and investment opportunity sets. Thus, the construct of homogeneity extends beyond regulatory reporting requirements to capture additional industry characteristics. We identify operational homogeneity as a key characteristic that allows auditors to benefit from knowledge spillovers by specializing in the industry. Cases of financial scandals by public companies in Nigeria and other countries which could not be detected by the auditors as described above, can eventually lead to the decline of public confidence, especially investors in the capital market, on audit quality generated by the auditor who provide an opinion about the fairness of the financial statements. This can be regarded as an audit failure which can endanger the auditor's profession (Nwoye, Ekesiobi, Obiorah, & Abiahu, 2016) if it is not be handled properly. Despite the significance of audit quality and auditors' responsibility, there are few studies focusing on the connection between audit industry expertise and auditors' liability in the context of companies listed on the Nigeria Exchange Group. The obvious surge of interest and attention in general financial reporting has been sparked by the recognized inability of audit processes to detect financial misstatements. Investors are now unable to make informed financial decisions that will have a positive impact on businesses as a whole due to the apparent lack of audit quality to inform equity and other stakeholder regarding misrepresentations. This is true representation of the accuracy of reported earnings and the ability of auditing to effectively restrain managerial earnings manipulations. Questions are being raised as to whether these corporate failures, are not the result of weak audit procedures and what does firm stakeholders do to audit firm for auditors' negligence?

In light of the aforementioned challengess, the quality of auditing outcomes among auditors have been questionable by the various users of the financial statement. To this end, the research seeks to profound solution to the above mentioned problems in other to bridge the gaps between the auditors and the stakeholders. Therefore, this research examined the link between auditor industry expertise and auditor's liability in financial firms in Nigeria.

1.1 Objectives of the Study

The main objectives of this study is to examine the effect of auditor industry expertise on auditor's liability in financial firms in Nigeria, while the specifics objectives are to:

1. determine the effect of audit fee on audit litigation
2. establish the effect of audit firm size on audit litigation
3. ascertain the effect of auditor tenure on audit litigation to examine the effect of dividend per share on share price volatility.

1.2 Research Hypotheses

The following hypotheses were formulated for the study;

Ho_1: Audit fee has no significant effect on audit litigation

Ho_2: Audit firm size does not have any significant effect on audit litigation

Ho_3: Auditor tenure does not have any significant effect on audit litigation

2. LITERATURE REVIEW

2.1 Conceptual review

2.1.1 Auditor Industry Expertise

There is no single generally accepted definition for expertise. Porter (2015) viewed industry expertise as a differentiation strategy whose purpose is to provide the company with a sustainable competitive advantage over non-expert: In a differentiation strategy, a firm seeks to be unique along some dimensions that are widely valued by buyers. It seeks one or more attributes that many buyers in the industry perceive as important, and uniquely position itself to meet those needs. It is rewarded for its uniqueness with a best price. According to Arens et al. (2019), Auditor expertise is auditor as having deep understanding (knowledge) and long experiences of the client's specific business and industry, having knowledge about the company's operations, and specific accounting and auditing guidance which are essential for doing a high- quality audit. The nature of the client's business and industry affects clients' business risk and the risk of material misstatements in the financial statements. Tuanakotta (2021), defined audit firm industry expertise as having long experiences and deep understandings of how general and specific accounting guidance applies to the specific client's industry and includes understanding of operational challenges and nuances of such industry. Tuanakotta (2021) further noted that there are many different expressions about the definition of audit firm industry expertise, but there is no difference in principle in these expressions, and the content of the expressions are consistent. Based on certified public auditor's industry expertise, audit firms that focus on a particular industry, and accumulate industry knowledge which are obviously different from other audit firms, will gradually become experts in that industry. Industry expertise is a kind of business strategy and market competition strategy adopted by audit firms based on their emphasis on specific industry knowledge and industry audit experience.

The expertise of the auditor plays an important role in improving audit quality so that the organization can avoid audit litigation cases. Demanding auditor specialization in an industry leads to a higher level of technical competence and technical information because non-specialized in the industry will cost the organization more harms item of litigation in future of the organization. It is mainly due to auditor's potential ability to detect financial statement errors (Arrunada, 2020). In this case, audit industry expertise knowledge enhances the likelihood that auditors discover errors, and thereby, affect the probability of reporting the discovered errors (Hammersley, 2016), by reporting the errors in the financial statement will lead to audit quality and reduce audit litigation cases. Requesting audit industry expertise can represent an incentive for audit firm to invest in expertise and to desire industry-based costumers. Besides, the industries which normally use the expertise contract, accounting related technologies, are more powerful to reach a higher level of audit quality by utilizing industry expert auditors than non-expert auditors. So, audit quality is positively related to specialization and audit industry expertise (Lowensohn, Johnson, Elder, & Davies, 2017).

In other words, additional investment on expertise can cause a positive effect on the audit fee premium. In this situation, audit industry expertise might reach more premiums compared to non-audit industry expertise (Wang & Iqbal, 2009). In addition, audit industry expertise, reinforced by auditors during the engagements, will lead to higher audit quality. Such experiences can also enhance the audit reputation through market credibility. In summary, audit industry expertise advantages together with general audit knowledge can enhance the audit technical ability and audit reputation and so increase audit quality.

2.1.2 Auditor's Liability

In recent times, audit liability has become a matter of increasing concern, attracting the attention of practitioners and academics alike. In the face of large claims and the escalating cost of indemnity insurance cover in North America, Europe and Australia, there has been a great deal of lobbying by firms and institutes for changes in the law, focused on the principle of joint and several liability in particular. In addition, a refocus on issues of audit quality and a general perception that directors should take a more proactive role in corporate management has further elevated the issue. The impact of liability on audit quality has been investigated by various studies. In common, audit firms have liability for their actions considering their accountability to the regulators (Chung, Farrar, Puri, & Thorne, 2020). For some reasons, the auditors may be pressured by such conditions to be serious and accurate in their functions. Risk of litigation and litigation costs resulting from perceived audit failures (real or not real) are usually associated with auditor's liability. In this regard, litigation costs may arise from sources such as clients, investors and other financial statement users. Such costs may cause liability payments and loss of reputation.

The auditor's liability represents the legal liability that is assumed when the auditor is performing professional duties, the auditor is liable for client accounting misstatements in the financial statements because there is always the risk of fraud and material misstatement in financial statements. Companies Law No. 15 issued in 1960, Article No. 165, is the law concerning the auditing profession. It states that the auditor is responsible for the accuracy of the data in his report, as he represents all shareholders of the company (Fatwa & Legislation Dep, 2015). Article no. 148 in the same law states that the chairman and members of the board of directors are responsible towards the company, shareholders, and third parties for all acts of fraud, abuse of power, and every violation of the law or the company's system and error in the administration. On the other
Exceptionally, the Companies Law; which explained the responsibility of the external auditor in just one article which is inaccurate and came in general. As can be seen that these laws did not give a clear and specific definition of third party who has the right to litigate the external auditor in the case of audit failure. This law did not include any articles regarding the damage potentially occurring for the investors from a wrongdoing of the auditor. This law did not decide any civil rights for buyer of securities against auditors; whom their negligence is proved during the auditing.

In other words, additional investment on expertise can cause a positive effect on the audit fee premium. In this situation, audit industry expertise might reach more premiums compared to non-audit industry expertise (Wang & Iqbal, 2009). In addition, audit industry expertise, reinforced by auditors during the engagements, will lead to higher audit quality. Such experiences can also enhance the audit reputation through market credibility. In summary, audit industry expertise advantages together with general audit knowledge can enhance the audit technical ability and audit reputation and so increase audit quality. However, both less and more liability may put audit firm partners at risk. Less liability may lead to auditor's negative mind about their independence credibility. Moreover, higher liability may lead to higher audit costs for partners. Therefore, partners shouldn't be involved in increasing the liability (Acemoglu & Gietzmann, 2017).

2.1.3 Audit Quality

The various changes in accounting, financial reporting and auditing were all designed to provide protection to investors. This is being achieved by imposing a duty of accountability upon the managers of a company (Sudsomboon & Vssahawanitchakit, 2019). More precisely, the role of auditing is to reduce information irregularity on accounting numbers, and to minimize the residual loss resulting from managers' opportunism in financial reporting. Effective and perceived qualities are necessary for auditing to produce beneficial effects as a monitoring device. The perceived audit quality by financial statements users is at least as important as the effective audit quality. It can be measure using the big four and non-big four audit firms. In the words of Dang (2004), audit quality describes how well an audit detects and report material misstatements of financial statements, curtail information asymmetry between management and stockholders and therefore helps protect the interests of stakeholders (Arunada, 2000).

2.1.4 Audit Fee and Audit litigation

Audit fee and audit Litigation there have been special emphasis on locality and auditor industry specialization. audit fee is the amount of cost incurred by external auditor services clients, so the amount of fee that represents income for the firm depends on how complex and broad the scope of the audit is and the reputation of the firm in the community, government and investors (DeAngelo, 1981). Audit services are one of the factors for choosing audit quality levels. It is argued that is the point at which might unambiguously argue that the concerns over audit quality have culminated in an observable and substantial event. Publicly available sources of information were used to identify the presence of litigation. Audit fee is mainly dependent on the audit firm's earned reputation through the provision of a high-quality audit. Prior studies revealed that perceived audit quality positively relates to audit fees; the higher the value placed on audit examination carried out by auditors who appear to be highly competent and independent, the higher the prices paid by the auditees. However, it has been observed that in Nigeria and other developing economies auditors' reputation is affected by audit litigation, resulting in the low pricing of audit services to be provided by the reputable audit firm.

2.1.5 Audit Firm Size and Litigation

Firm size is one of the core problems of modern enterprise theory, enterprise size still plays an important role in the study of enterprise growth. According to Jiang (2003), firm size is clear as "employees per establishment, employees per company, sales per firm, and value added per firm. Chen, and Huang (2020) pointed out that firm size is the carrier of firm production and business activities. At present, there are two kinds of criteria for enterprise scale classification in the theoretical field: qualitative index and quantitative index, qualitative division is mainly defined from four aspects, the degree of enterprise autonomy, the degree of ownership concentration, the management mode and the status of the industry; quantitative division is mainly carried out from the aspects of the number of employees, assets and sales income (Shi, 2014). In case of the auditor's fine, auditors must plan the nature, timing, and extent of their effort to search for fraud in an auditee's financial statements. The auditors' decisions to search for fraud are affected by the average fine for failing to detect fraud, they also are affected by other properties of the fine, including the possibility of an extremely large legal liability (hereafter referred to as a skewed penalty system).

2.1.6 Tenure Audit and Litigation and Fine

According to Hartadi (2022), audit tenure is the length of time the auditor has consecutively performed audit work on a certain company. In the terminology of the Minister of Finance Regulation No.17/PMK.01/2008, audit tenure is identical to the period of providing services for public accountants. Performing an audit procedure as such will certainly give different results if the audit procedures are carried out in a state of no time budget. The problems of audit completion time related to the auditors' dysfunctional behaviour have serious implications for audit quality. In every audit activity, auditors will find an obstacle in determining the time to issue audit results that are accurate and in accordance with established rules. Audit tenure can be measured by the length of the time or numbers of years an audit spent in auditing a particular company's. While auditor's reputation is demonstrated by public confidence in the auditor through his performance. The auditors are responsible for keeping public trust and bound in honor of the auditors themselves and public accountant firms where they work by giving opinions that are appropriate to the company's state. The auditor's reputation, in this case, can be represented by several relevant auditors hired by managers. The more frequent the auditor is hired, the higher the auditor's reputation is.

2.2 Theoretical Review

This section presents the theoretical framework that underpins the study under review such as theory of inspired confidence and lending credibility theory. Each of the theories are explained below.

2.2.1 Theory of Inspired Confidence

The theory of inspired confidence (Theory of rational expectations). The demand for audit services is the direct consequence of the participation of third parties (interested parties of a company) in the company. These parties demand accountability from the management, in return for their investments in the company. The demand is said to be increasing for audit services due to the influence and participation of external stakeholders in a company. These external stakeholders contribute to the company and in return they demand the audit of the management's financials and reports. The management can be influenced by biasness and their prepared accounts and reports which can be manipulated due to this, the audit of these is required because of differing interest of these external stakeholders and the management. A normative approach was adopted towards the supply side of the audit. The auditor therefore is to conduct the audit in such a way that any expectation of an external stakeholder is not damaged. Hence, with the advancement in audit procedures, public's reasonable expectations should be met by auditor by all means (Hayes et al., 1999). Accountability is realized through the issuance of periodic financial reports. However, since this information provided by the management may be biased, and outside parties have no direct means of monitoring, an audit is required to assure the reliability of this information.

2.2.2 Lending Credibility Theory

The lending credibility theory suggests that the primary function of the audit is to add credibility to the financial statements. In this view the service that the auditors are selling to the clients is credibility. Audited financial statements are seen to have elements that increase the financial statement users' confidence in the figures presented by the management (in the financial statement). The users are perceived to gain benefits from the increased credibility, these benefits are typically considered to be that the quality of investment decisions improve when they are based on reliable information, Hayes et al. (2015). The main result of this research is about credibility of the financial statement and the main objective of this theory is about adding credibility to the financial statement, we therefore anchored this research of leading credibility theory.

2.3 Empirical Review

Ahmad, and Abdulai, (2022) examined the nexus between audit industry specialization and audit quality in the listed nonfinancial firms in Nigeria Data were drawn from financial reports of 40 listed firms in Nigeria covering periods between 2005 and 2019 and the total observation stood at 517. Data analysis was carried out with the use of longitudinal econometric models. Evidence from the study support the rejection of the null hypothesis ($t=-1.72$, $p<0.10$ & $t=-1.74$, $p<0.10$) for the two models thereby supporting the proposition that audit quality improved significantly improved as a result of audit industry specialization. It specifically isolates the oil and gas as well as service industries for significant improvement in audit quality as a result of industry specialization of auditors while pointing to the possibility of improving the agricultural and consumer service industries due to their negative but insignificant coefficients.

Fanani, Budi and Utama, (2021) conducted a study on audit industry specialization focusing on audit quality and discovered that higher audit quality exists for specialist auditors above their non-specialist counterparts even though their study was restricted to the financial sector. The result presents consistent findings with previous studies who considered audit industry specialization unobservable and operationalized it with a binary digits of big 6 firm thereby defeating the intent of the study.

Davidson, and Dadalt. (2021) examined the relationship between audit fee and earnings management of pharmaceutical firms in Nigeria using total accrual management. Archival data were extracted from annual reports of selected quoted pharmaceutical firms in Nigerian Stock Exchange which was based on panel data ranging from 2006 – 2015. Ex post facto research design was used. Descriptive statistics correlation and panel multiple regression were used to analyse the data. The result of the regression showed that all the independent variables (firm size, firm complexity, and type of audit firms were generally and positively significant to the level of total accruals since the p-value is 0.4 i.e 4%. The study although, done in Nigeria did not capture so many variables in the audit quality literature as variables such industry specialization and tenure are good determinants of audit quality.

Ahmed (2019) investigated the professional auditors‟ perception of the impact of audit firm rotation on audit quality in Egypt. Primary data were collected via questionnaires and used. A sample size of 83 auditors was drawn using non-probabilistic sampling technique. T-test was used to analyse the data. Findings revealed that the auditors‟ perception indicate that there is a negative relation between long audit tenure and audit quality. There is a negative relation between client-specific knowledge and mandatory auditor rotation. There is a positive relation between auditors" independence and mandatory auditor rotation. The study focused only on auditors perceptions. It ignores other interested parties such as clients, auditing profession associations and legislations which limit generalization. The use of questionnaires and non-probabilistic sampling technique by the researcher limit validity and reliability of the findings.

Che, Hope, and Langli, (2019) examined the availability of the four big-4 audit companies with higher quality audits than other companies, and the study found that the impact of the big-4 audit companies is present in the private sector, and the increased quality of auditing can be attributed to the strengthening of incentives. The U.S. audit firms are aware of the risks of auditing and the impact of those risks on the quality of the audit, and found that auditing companies that engage in risk-inherent behaviour say their audits are of lower quality, and audit company customers who take audit risks pay less for audits. Narayanaswamy and Raghunandan, (2019) identified the role of audit and audit independence in improving the quality of the audit, and the sample of the study was represented by a number of Indian companies for the period 2014-2017, and the study found that the low quality of audit was due to Auditors auditing her client for the long period of time and it affects auditor’s independence.

Wong et al. (2018) aimed to determine whether the quality of auditing varies depending on the size of the Chinese audit firm under audit risk and found that large audit firms are associated with higher audit quality when compared to smaller audit firms. Niemi et al. (2018) investigated on the impact of audit risks on the auditing processes in Europe, and the study was conducted in Finland for the period 1996-2010. The study found that the four audit companies became more interested in audit risks, and it allocated the largest number of audit hours to companies’ customers managed by their owners in 2010, compared to the year 1996, and fewer audit hours were allocated to low-risk customers in 2010 than in 1996.

Ugwunta, Ugwuanyi and Ngwa (2018), assessed the effect of audit quality on share prices in Nigerian oil and gas sector using regression and covariance analyses. Findings show that audit committee composition and auditor type has significant effect on market prices of quoted firms. The covariance analysis suggests that while auditor type, auditor independence, and composition of the audit committee have significant relationship with market price of shares, audit tenure has a negative relationship with the market price per shares. This study is timely but it focused only on aspect of performance hence the need for a study that will study the effect of audit quality on performance generally.

Egbunike and Abiahu, (2017) investigated audit firm report and financial performance of Money Deposit Banks in Nigeria with the aim of determining the effect of audit firm characteristics on financial performance of money deposit banks in Nigeria. The study adopted the ex post facto and correlational research design, with a study population that comprises all money deposit banks in existence as at 2015 financial year end covering a period of 5 years from 2010-2014. The study finds that audit quality has a significant effect on return on assets of Nigerian banks; Audit fee and audit report lag had no significant effect on return on assets, earnings per share and net profit margin of Nigerian banks. This study is also timely but if it had used a combination of both market and financial measure of performance, its result would have either been different or better and more reliable.

Audousset-Coulier, Jeny and Jiang (2016), carried a study on the effects of industry specialization on audit quality reveal a lack of consensus on the best measure of industry specialization. This is basically explained by the very complexity of the industry specialization concept, which the different proposed measures fail to adequately capture. Industry specialist auditors are generally defined according to industry market shares, and market shares are computed using different metrics such as audit fees, total assets and sales revenues. Empirical studies on auditor industry specialization, most of them conducted at the audit firm level, differ with regard the metric of industry specialization.

3. MATERIAL AND METHOD

The study adopted the *ex post facto* research design. The population of this study consist of all the 49 financial firms listed on the Nigeria Exchange Group as at 31st December 2022. secondary data was used for the study. And we also made used of other secondary sources of data in this study which were based on lengthily on documented sources such as financial reports and accounts of sample population. Secondary Data covering a period of ten (10) years (2012-2022). The reason for chosen 2012 as the preparatory year was because, the international financial reporting standard (IFRS) was approved and made it mandatory for all companies to implement the new standards in their financial reporting. The sample size is the same as the population, we made used of all the forty-nine (49) firms owned by banks and insurance on the Nigeria. Data collected were analyzed using multiple regressions of ordinary least square (OLS) method of estimation.

The study considered audit industry expertise as independent variable while auditor's liability as the dependent variable, AUDLITI as the dependent variable. Audit, audit fees and firm size as the Independent variables (AUDQUL, AUDFEE & AUDFMSIZ) while auditor tenure

(AUDTEN) was used as control variable. Each individual performance variables were regressed against the control variable, Onaolapo, Ajulo and Onifade (2017).

AUDLITI = α+ $\beta 1$ AUDFEE+ $\beta 2$ AUDQUAL + $\beta 3$AUDFMSIZ+ $\beta 4$ *AUDTEN* +µ … (i)

Where:

AUDLITI	=	Litigation
AUDQUAL	=	Audit Quality
AUDFEE	=	Audit fee
AUDFMSIZ	=	Firm Size
AUDTEN	=	Auditor's Tenure
α	=	Intercept coefficient
β	=	Coefficient for each of the independent Variables
µ	=	Error term.

Table 1: Descriptions of Variables

S/N	**Variables**	**Definition**	**Type**	**Measurement**
1	AUDLiti	Audit Litigation	Dependent	1 if there is a court case for the period and 0 if otherwise
2	AUDQUL	Audit Quality	Independent	1 if audit firm is BIG 4 and 0 if otherwise
3	AUDFEE	Audit Fee	Independent	Natural log of audit fee paid to the firm
4	AUDFMSIZ	Audit Firm Size	Independent	Natural log of total asset of the firm
5	AUD TEN	Auditor's Tenure	Control	1 if 3 years and above, 0 if less than 3 years

Source: Researcher, 2023.

3.1 Decision Rule

The study accepts the alternative hypothesis (H_1) when the p-value obtained is less than the 0.05, otherwise reject and accept the null hypothesis (H_0).

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4. RESULT AND DISCUSSIONS

4.1 Data Analysis

Table 2. Descriptive Analysis

	AUDFEE	AUDFMSIZ	AUDLIT	AUDTEN
Mean	6.975294	7.281956	0.140000	0.753333
Median	7.356955	7.956307	0.000000	1.000000
Maximum	8.530955	10.13167	1.000000	1.000000
Minimum	0.000000	0.000000	0.000000	0.000000
Std. Dev.	1.563393	2.358706	0.348149	0.432515
Skewness	-3.552424	-2.249399	2.075006	-1.175367
Kurtosis	16.17955	7.529239	5.305648	2.381488
Jarque-Bera	1401.121	254.7074	140.8663	36.92818
Probability	0.000000	0.000000	0.000000	0.000000
Sum	1046.294	1092.293	21.00000	113.0000
Sum Sq. Dev.	364.1855	828.9604	18.06000	27.87333
Observations	150	150	150	150

Source: Eviews 10 Output

The mean value of Audit Fee is 6.975294, which represents the average value of the data set. The maximum value is 8.530955 and the minimum value is 0.000000, which indicate that the values in the data set range from 0 to 8.53. The standard deviation is 1.563393, which measures the amount of variation or dispersion of the data from the mean. The skewness is -3.552424, which suggests that the data distribution is heavily skewed to the left. The kurtosis is 16.17955, which indicates that the data distribution is very peaked and has a sharp peak. The Jarque-Bera is 1401.121 with a probability value of 0.000000, which indicates that the data does not follow a normal distribution.

The mean value of Audit firm size is 7.281956, the maximum value is 10.13167, and the minimum value is 0.000000, which indicates that the values in the data set range from 0 to 10. The standard deviation is 2.358706, which suggests that the data is more dispersed than the data in the AUDFEE variable. The skewness is -2.249399, which indicates that the data distribution is skewed to the left. The kurtosis is 7.529239, which indicates that the data distribution is less peaked than the data distribution in the AUDFEE variable. The Jarque-Bera is 254.7074 with the probability value is 0.000000 indicates that the data does not follow a normal distribution.

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The mean value of Audit Litigation is 0.140000, the maximum value is 1.000000, and the minimum value is 0.000000. The standard deviation is 0.348149, which suggests that the data is relatively less dispersed than the data in the AUDFEE and AUDFMSIZ variables. The skewness is 2.075006, which indicates that the data distribution is heavily skewed to the right. The kurtosis is 5.305648, which indicates that the data distribution is very peaked and has a sharp peak. The Jarque-Bera is 140.8663 with the probability value is 0.000000 indicates that the data does not follow a normal distribution.

The mean value of Audit Tenure is 0.753333, the maximum value is 1.000000, and the minimum value is 0.000000. The standard deviation is 0.432515, which suggests that the data is relatively less dispersed than the data in the AUDFEE and AUDFMSIZ variables. The skewness is -1.175367, which indicates that the data distribution is slightly skewed to the left. The kurtosis is 2.381488, which indicates that the data distribution is less peaked than the data distributions in the AUDFEE and AUDLIT variables. The Jarque-Bera is 36.92818 the probability value is 0.000000 indicates that the data does not follow a normal distribution.

4.2 Hypotheses Testing

In line with the findings of the Hausman Specification Test, Random Effect regression approach was deployed in estimated the model. However, while the result of the Random Effect Estimation is presented in Table 3 below.

Table 3. Hypothesis Testing
Dependent Variable: AUDLIT
Method: Panel EGLS (Cross-section random effects)
Date: 04/12/23 Time: 01:09
Sample: 2012 2022
Periods included: 10
Cross-sections included: 125
Total panel (balanced) observations: 539
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.911071	0.156864	5.808047	0.0000
AUDFEE	-0.060406	0.025666	-2.353500	0.0199
AUDFMSIZ	-0.047430	0.016163	-2.934522	0.0039
AUDTEN	-0.005755	0.056168	-0.102459	0.9185

Effects Specification		S.D.	Rho
Cross-section random		0.117174	0.1631
Idiosyncratic random		0.265454	0.8369
Weighted Statistics			
R-squared	0.199925	Mean dependent var	0.095059
Adjusted R-squared	0.183485	S.D. dependent var	0.296366
S.E. of regression	0.267800	Sum squared resid	10.47068
F-statistic	12.16093	Durbin-Watson stat	1.889983
Prob(F-statistic)	0.000000		
Unweighted Statistics			
R-squared	0.320204	Mean dependent var	0.140000
Sum squared resid	12.27712	Durbin-Watson stat	1.611893

Source: Eviews 10 Output

This is a panel data regression output that models the relationship between the dependent variable (AUDIT LITIGATION) and the independent variables (AUDIT FEE, AUDIT FIRM SIZE, and AUDIT TENURE). The method used to estimate the parameters is the Panel EGLS (Cross-section random effects) with the Swamy and Arora estimator of component variances. The sample used for the analysis covers the period from 2012 to 2022, with 10 periods and 125 cross-sections, resulting in a total of 539 balanced panel observations.

The weighted statistics section provides information on the goodness of fit of the model. The R-squared value of 0.199925 means that 19.99% of the variation in Audit Litigation is explained by the independent variables. The adjusted R-squared value adjusts the R-squared for the number of independent variables included in the model and gives a better indication of the goodness of fit. The F-statistic = 12.16093 which has a corresponding Prob(F-statistic) = 0.00000 suggests that the independent variables in the model are collectively significant in explaining the variation in Audit Litigation. The Durbin-Watson statistic tests for the presence of autocorrelation in the residuals and values between 1 and 2 suggest that there is no significant autocorrelation.

4.2.1 Hypothesis One

Ho_1: Audit fee has no significant effect on audit litigation

Table 3 above shows that t-statistics recorded -2.353500 while the p-value peaked at 0.0199 which is less than 0.05. This result suggests that higher audit fees are associated with a lower likelihood of audit-related litigation in listed financial firms in Nigeria. This may be because firms that charge higher fees are typically more experienced and have a better reputation, which can help to reduce the likelihood of audit-related litigation. Additionally, higher fees may reflect a higher level of effort and care taken by the audit firm during the audit process, which can reduce the likelihood of errors and subsequent litigation. Since the p-value is less than 0.05, we accept the alternate hypothesis, and this implies that Audit fee has a strong significant but negeative effect on audit litigation (t-statistics -2.353500, p-value 0.0199)

4.2.2 Hypothesis Two

Ho_2: Audit firm size does not have any significant effect on audit litigation

Table 3 above shows that t-statistics recorded -2.934522 while the p-value peaked at 0.0039 which is less than 0.05. This result suggests that larger audit firms are associated with a lower likelihood of audit-related litigation in listed financial firms in Nigeria. This may be because larger audit firms typically have more resources and experience, which can help to reduce the likelihood of audit-related litigation. Additionally, larger audit firms may have a better reputation and more established systems and processes, which can help to reduce the likelihood of errors during the audit process. Since the p-value is less than 0.05, we accept the alternate hypothesis, and this implies that Audit firm size has a strong significant but negeative effect on audit litigation (t-statistics --2.934522, p-value 0.0039)

4.2.3 Hypothesis Three

Ho_3: Auditor tenure does not have any significant effect on audit litigation

Table 3 above shows that t-statistics recorded -0.102459 while the p-value peaked at 0.9185 which is greater than 0.05. This result suggests that the length of time that an auditor has been with a particular firm may not necessarily be a factor in reducing the likelihood of audit-related litigation in listed financial firms in Nigeria. It's possible that other factors, such as the quality of the auditor's work, the reputation of the audit firm, or the complexity of the audit, are more important in determining the likelihood of audit-related litigation. Since the p-value is greater than 0.05, we accept the null hypothesis, and this implies that Auditor tenure not only maintained a weak and negative status but does not also have any significant effect on audit litigation (t-statistics -0.102459, p-value 0.9185)

CONCLUSION AND RECOMMENDATIONS

The research findings on the effect of audit industry expertise on auditor's liability of listed financial firms in Nigeria provide insights into the factors that may impact the likelihood of audit-related litigation. The results show that higher audit fees and larger audit firm size are associated with a lower likelihood of audit-related litigation, while auditor's tenure was not found to have a significant effect. The finding that higher audit fees and larger audit firm size are positively associated with lower audit-related litigation highlights the importance of these factors in reducing the risk of auditing failures. Higher audit fees may indicate a higher level of effort and care taken by the audit firm during the audit process, which can reduce the likelihood of errors and subsequent litigation.

Based on these findings, it was recommended that:

1. audit firms should increase its audit fees to reflect the level of effort and care taken during the audit process. This may help to ensure that the auditing process is thorough and reduces the likelihood of errors and subsequent litigation.
2. Stakeholders should consider the audit firm size when evaluating the financial statements of firms because larger audit firms may have more resources, experience, and a better reputation, which can help to reduce the likelihood of audit-related litigation.
3. Auditing firms should focus on other factors, such as the quality of the auditor's work and the reputation of the audit firm, when assessing audit quality. This may help to ensure that auditing practices are consistent and effective, regardless of the length of time an auditor has been with a particular firm.

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