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EFFECT OF AUDIT QUALITY ON AUDITOR'S LIABILITY OF SELECTED COMPANIES IN NIGERIAN

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Abstract: *The main objective of this study is to examine the effect of audit quality on auditor's liability of selected companies in Nigerian. While the specific objectives are; to determine the effect of audit fee on audit litigation and fine, to establish the effect of audit firm size on audit litigation and fine; and to ascertain the effect of auditor tenure on audit litigation and fine.*

Secondary data was used for this study and the time frame for the study is six (6) years (2016 to 2021). The analyses of data were done by regressing the dependent variables through the ordinary least square (OLS) techniques. Using panel data of 25 consumer and conglomerate goods companies quoted on the Nigeria Exchange Group as at 31st December, 2021.

The study revealed that audit fees significantly and negatively affect audit litigation and fine of selected companies in Nigeria. Audit firm size significantly and negatively affects audit litigation and fine of selected companies in Nigeria. The negative relationship between auditor's tenure and audit litigation and fine of selected companies in Nigeria is not significant.

The study therefore recommends among others that audit firms should increase their audit fees to reflect the level of effort and care taken during the audit process, Stakeholders should consider the size of the audit firm when evaluating the financial statements of firms.

Keywords: Audit Quality, Auditor's Liability, Audit Litigation, Audit Fee, Audit Tenure etc.

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Introduction

An existing justification for utilizing the expertise of external auditors includes the principal-agent relationship that exists between owners and management. Agency theory, as stated in literature, states that in most cases, a contract between two parties, with one party acting as the agent and the other as the principal, will result in an agency relationship. When an agent's personal interests clash with those of their principal, the principal may suffer since the agent didn't look out for their best interests. A neutral third party is sometimes brought in to resolve such conflicts. (Barzegar & Salehi, 2008) The external auditor is this outside entity. A competent auditor is required to offer an opinion on their customers' prepared financial statements in accordance with generally accepted accounting principles (GAAP), which requires a high level of expertise, thoroughness, and attention on the part of the auditor. Readers of the financial statement are influenced by his report's viewpoint. A much of what is commonly known as audit quality in an audit report depends on the auditor's methodology and the evidence he uses to support his conclusion.

As the guardian of data pertaining to the financial accounts of the business, the auditor plays a crucial function in the economy. The purpose of an audit is to verify and validate the accuracy of a company's financial accounts in order to improve the trustworthiness of financial decision-making data (Latham & Linviller 2018). To ensure the financial information is accurate, auditors take precautions to identify and report any significant errors.

The public and businesses alike want assurance that auditors carry out their duties competently because of the critical role they play in providing trustworthy financial information (Watkins, Hillison, & Morecroft, 2004).

The scandal involving Andersen and Enron sparked discussions about audit quality falling over the years (Oliverio & Newman, 2008). The financial reporting problems that have rocked huge corporations like Enron and WorldCom have greatly heightened concerns about audit quality, according to Mgbame, Eragbhe, and Osazuwa (2012). Many have brought these events to the attention of auditors. Gul and Krishnan (2002) provide evidence from declining pricing of discretionary accruals and increases in the percentage of unqualified audit reports to support their contention that audit quality for audit firms with high litigation (Big Five) has dropped since 1995. According to Weiner (2012), when faced with controversies, most corporations turn to the Big Four, who are known for heavy litigation, since they believe that these firms would produce better reports due to the greater risk of public image damage they endure compared to firms with less litigation standing.

. In 2006, an accounting fraud surfaced. Some have referred to this controversy as "Nigeria's Enron" to avoid directly naming the incident. The stock price of the firm plummeted and the wealth of its owners was wiped out when Enron went down. Unresolved issues include the following: the investing community's reluctance to hold auditors accountable, auditors' acceptance of bribes and gratifications to turn a blind eye, auditors' fear of losing valued

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employees, and a lack of strict legislation governing auditing. Some of the open questions that this research hopes to answer include the following.

Recent high-profile scandals involving major financial institutions have cast doubt on the reliability of audits (see: Enron in 2002, Cadbury Nigeria Plc in 2006, Afribank Nigeria Plc in 2009, Intercontinental Bank Plc in 2009, and Skye Bank Plc in 2018). Stakeholders in numerous nations have demanded improved corporate governance due to the increasing number of high-profile company scandals that have included poor financial reporting (Amahalu, Egolum & Obi, 2020). The audit process's admitted inability to catch financial misstatements has sparked what seems like a frenzy of interest and scrutiny in financial reporting in general. Due to the breakdown of the principal-agent relationship between owners and management, investors are unable to make informed financial decisions that impact the company. This is because the audit was deemed to have failed to completely notify equity and other claimants about misrepresentations.

So, in order for the financial statements to be relied upon by those who utilize them, there is an urgent need for scholars and professionals to improve current methods of quality control, proposing new methods that would safeguard equity and improve audit quality.

The primary goal of this research is to look at how auditors' liability is affected by audit quality in a few Nigerian listed companies.

Review of Related Literature

Audit Quality

The term "audit quality" has been the subject of several previous efforts to define it (International Auditing and Assurance Standards Board, 2011). None of these efforts, however, have produced a definition that is agreed upon by everyone. The concept of audit quality is fundamentally intricate and multi-dimensional. According to DeAngelo (1981), the audit quality is the market-assessed joint chance that a particular auditor would both find and report a client accounting system violation. This is the standard definition of audit quality that is often used by audit scholars. Both the auditor's independence and objectivity, which dictate what the auditor is likely to do in response to a discovered misstatement, and the audit firm's competence, which determines the likelihood of a misstatement being detected, are emphasized in the definition. According to DeAngelo (1981), the likelihood that an auditor would find and honestly disclose any significant mistakes, misstatements, or omissions in the client's financial accounts is the essence of audit quality.

In order to back up the viewpoint stated in the auditor's report, the purpose of an audit is to gather suitable and adequate audit evidence, as stated by Enofe, Mgbame, Efayena, and Edegware (2014). The financial statements would be misrepresented if the audit evidence was inadequate or incorrect. It is possible for an auditor to falsely report that a company is a going concern (Enofe et al., 2014). In the case of the company's demise, auditors may find themselves the target of legal action. The writers expanded by saying that Arthur Andersen, who had been auditing Enron, was nearly bankrupt due to the enormous legal costs incurred when the company went belly-up. Many corporations have gone bankrupt due to low-quality audits that failed to gather enough relevant evidence (Enofe et al., 2014). In their audit of the "special purpose entities" and how they were treated financially, Arthur Andersen did not collect sufficient data (Mallin, 2010).

Quality Audits: An Absolute Must

The wide diversity of audits and the many types of people who stand to gain from them make audit quality assessment a challenging task. For several reasons, including: 1. auditors' need to provide credible reports; 2. auditing firms' managements' desire to inspire trust in their financial statements; 3. professional organizations' interest in achieving quality in auditing and fulfilling auditing's responsibilities to all parties involved; and 4. intense competition among auditing firms, auditors and clients alike use auditing quality as a defining characteristic when choosing between firms.

Given the pressing need to enhance auditing quality, numerous academic and applied studies have concentrated on this topic. In 1998, the Chairman of the Securities and Exchange Commission (SEC) stated that, to reduce instances where auditors do not meet the required level of quality, professional standards and legislation must be developed, and auditing must be organized to ensure an improvement in auditors' overall quality performance. This aids readers of publicly available financial accounts in making informed investment decisions (Heninger, 2001).

Elements of Auditing Quality

According to Simnett and Trotman (2018), private audit offices and audit firms in general should follow certain policies and procedures that the auditor should put in place to guarantee that they are serving related parties properly and according to auditing standards. This applies to both types of audit offices. Independence, honesty, and objectivity; Personnel management; Acceptance and continuation of customer relationships and specific operations; and, finally, the size of the audit office, the type of business it performs, its geographical location, and the extent to which the business branches out all influence the nature and scope of audit quality policies and procedures, which in turn are influenced by the costs and benefits anticipated to be achieved from them (Pinello et al., 2019; Svanberg & Öhman, 2019). Inspection or continuation.

Auditor’s Liability

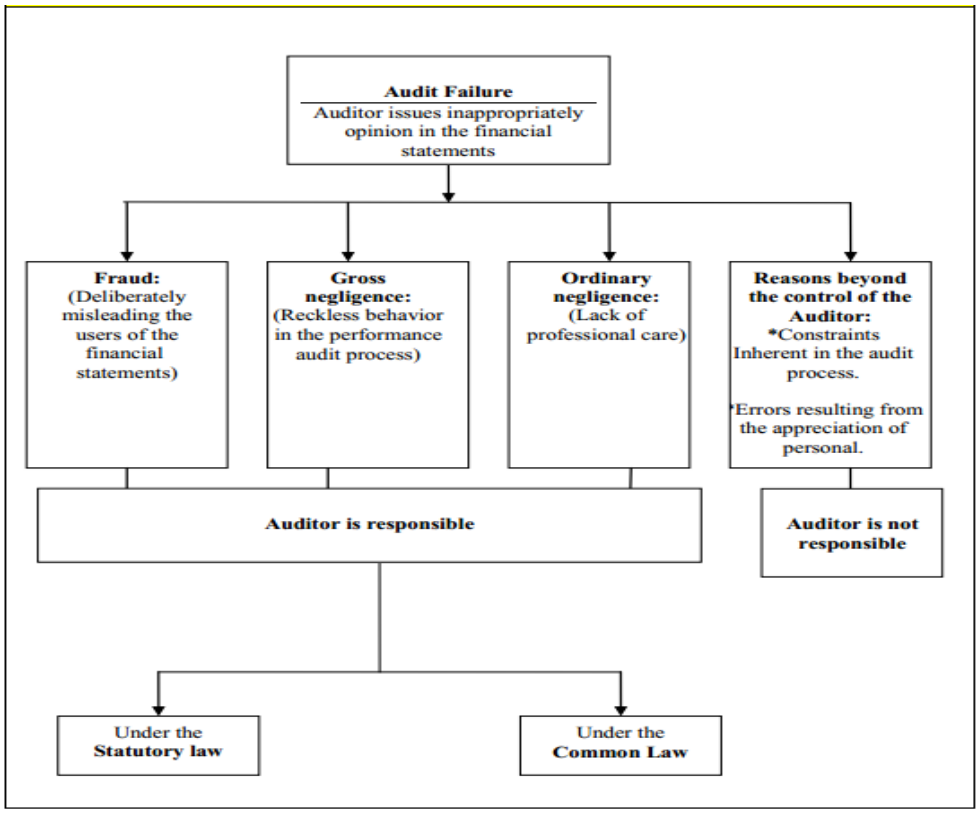
Since the possibility of fraud and substantial misrepresentation in financial statements is ever-present, auditors often face legal action when they carry out their professional responsibilities. One example of this is the auditor's liability, which arises when clients' accounting records contain inaccurate information. Article 165 of Companies Law No. 15, which was issued in 1960, governs the auditing profession. Since he speaks for all of the company's shareholders, the auditor has a duty to ensure that the information in his report is accurate (Fatwa & Legislation Dep., 2005). Article 148 of the same law stipulates that in the event of fraud, abuse of power, breach of law or corporate system, or administrative error, the chairman and members of the board of directors are liable to the company, shareholders, and third parties. Contrarily, the Companies Law included a single, vague, and erroneous item outlining the role of the external auditor. These statutes obviously failed to define, in precise terms, who third parties have the legal right to sue the external auditor in the event of an audit failure. Investors could lose money if the auditor does something improper, but that was not addressed in this statute. In cases where auditors' carelessness is revealed during an audit, this statute does not

establish any legal rights for security purchasers against those auditors.

Reasons for Audit Failure That Lead to Audit Litigation and Fine

Litigation is a risk for auditors regardless of whether their audits pass or fail. In the United States, for example, there were six big auditing firms that were the subject of lawsuits (now down to four) due to investigations into the financial records of publicly traded companies, which accounted for three times the actual number of auditing failure instances. Even when there are no anticipated benefits to the auditor's approach, litigants nevertheless have a strong motive to sue them. The auditor's responsibility and the sources of audit failure are shown in Figure 1 below, along with the reasons for audit litigation.

Figure 1: Reasons for audit failure that lead to auditor's Liability



Adapted from Raghunandan& Rama 2006

The figure 1 above shows the elements that can contribute to audit failure during auditing work, from fraud, gross negligence, ordinary negligence and the reason beyond the control of the auditor.

Audit Quality and Audit Liability

One of the fundamental issues in the discussion of auditors' liability is to whom auditors should be held liable for ordinary negligence under common law. Three judicial viewpoints prevail: the restrictive privity approach, the more liberal Restatement approach, and the most liberal foreseeability approach. To compare these three approaches from an efficiency perspective, this study will develops a model that will features an owner-managed firm, an independent auditor, a continuum of unrelated lenders, and an impartial court. Double effort-incentive problems appear for the firm and the auditor. The firm has an additional incentive problem due to the sequential nature of its borrowing.

The impact of liability on audit quality has been investigated by various studies (Fargher, Taylor, & Simon, 2001). In common, audit firms have liability for their actions considering their accountability to the regulators (Chung, Farrar, Puri, & Thorne, 2010). 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. Moreover, litigation risk can put auditors under pressure to accept a client. In addition, litigation risks can create an incentive for auditors to be more diligent on their duties.

Theoretical Framework

Audit Quality Theory

According to Watkins, Hillison, and Morecroft (2004), auditors' actual performance and their own subjective evaluations of that performance are distinct ideas. In order to differentiate between the two ideas, Watkins et al. (2004) employ terms like "monitoring strength" and "reputation" to describe the perceived and actual quality of audits. Both the monitoring strength and the auditors' reputations play a role in how stakeholders see

the auditors' trustworthiness and the quality of the information in the financial statements. The degree of competence and independence of auditors are two components of audit quality that can be used to determine the strength of auditors' monitoring.

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).

Agency Theory

Auditing plays a vital role in reducing both: information asymmetry by empirically confirming the validity of financial statements and agency problems. The principal-agent conflict illustrated in agency theory, where principal (owner) lack reasons to believe their agents (managers) because of information asymmetries and contradictory motives, Watts and Zimmerman (2016). Information asymmetry deals with the study of decisions in transactions where one party has more or superior information than other(s). The contradictory motives such as financial rewards, labor market opportunities, and associations with other parties that are not directly related to principals can, for example, consequence for agents to be more optimistic about the economic performance of an entity rather than a performance of whole company. Differing motivations and information asymmetries decrease reliability of information, which cause breach of trust that principals will have on their agents.

Empirical Review

The effect of audit firm rotation on audit quality in Egypt was studied by Ahmed (2019) from the perspective of professional auditors. Questiosannaires were utilized to gather primary data. Using a non-probabilistic sampling technique, a total of eighty-three auditors were selected for the study. The data was analyzed using a T-test. Based on the auditors' perceptions, the results show that longer audit tenure is inversely related to audit quality. The correlation between required auditor rotation and client-specific expertise is negative. Mandatory auditor rotation is positively correlated with auditors' independence. Perceptions by auditors were the sole subject of the investigation. Clients, auditing profession associations, and laws that restrict generalization are not taken into consideration. Findings are not as valid or reliable because the researcher used questionnaires and a non-probabilistic sampling technique.

In their 2019 study, Che, Hope, and Langli look at how the big four audit firms stack up against other companies. They discover that these firms have an effect on the private sector, and that stronger incentives are to blame for the higher quality of auditing.

According to Narayanaswamy & Raghunandan (2019), who studied a sample of Indian companies from 2014 to 2017, auditors' prolonged engagement with a single client compromised their independence and contributed to subpar audit quality.

In their 2018 study, Wong et al. sought to answer the question, "Does the quality of auditing vary depending on the size of the Chinese audit firm under audit risk?" They discovered that larger audit firms tend to have better audit quality than smaller ones. A study conducted by Rusman et al. (2018) sought to determine the effect of auditing and audit quality on auditor opinion. The study's sample included 244 companies from various industries in Indonesia. The results showed that audit quality and audit itself affected auditor opinion.

The purpose of the research by Egbunike and Abiahu (2017) is to identify the impact of audit firm attributes on the financial performance of Nigerian money deposit banks by analyzing audit firm reports and the financial performance of these institutions. The research covered five years, from 2010 to 2014, and used an ex post facto and correlational design. The study population included all money deposit banks that were in operation as of the conclusion of the 2015 financial year. Results show that audit quality significantly affects ROA for Nigerian banks, but audit fee and report latency do not significantly affect ROA, EPS, or net profit margin for these same banks. Additionally, this study is relevant; yet, the outcome would have been different—or at least better and more trustworthy—had it combined market and financial success metrics.

Research Design

The research design used for this study is ex post facto research design. The reason why we used ex post facto research design is because ex post facto design is based on existing data. 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 textbooks, journals, articles, newspaper, paper presentations etc.

The population of this study were consist of all the 157 listed companies on the Nigeria Exchange Group as at 31st December 2021. So far the study focuses on some selected listed firms from consumer goods and conglomerate goods companies alone for the purpose of this study.

Purposive sampling technique was used to select sample size of twenty-five (25) companies owned by consumer goods and conglomerate goods on the Nigeria Exchange Group as at 31st December, 2021 as shown in Table 2 below. These 25 companies were selected from the companies quoted on the flood of the Nigeria Exchange Group as at 31st December, 2021; Secondary Data covering a period of six (6) years (2016-2021) was used.

Model specification and measurement of variables

"The study considered auditor's liability as the dependent variable (AUDLITI). Audit quality, 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).

The functional form of the model is as follows:

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

Where:

AUDLITI = Litigation and fine

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.

Measurement of Variables AUDQUL, AUDFEE, AUDFMSIZ

Table 1: Descriptions of Variables

S/N	**Variables**	**Definition**	**Type**	**Measurement**
1	AUDLiti	Audit Litigation and fine	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, 2022.

Data Analysis

Data collected were analyzed using multiple regressions of ordinary least square (OLS) method of estimation and correlation was adopted as the Data analysis techniques for the study. Frequencies and percentages, these frequencies and percentages enables the researcher to clearly represent true data characteristics and findings with a great deal of accuracy. Interpretation and analysis of data was also used to describe items in tables used for this study.

Presentation of Data

This study determines the effect of audit quality on auditor's liability among selected listed firms in Nigeria. The study covers a six (6) year accounting period of 2016 to 2021. Measures of audit quality in the study are audit fee (AUDFEE), audit firm size (AUDFMSIZ) and audit tenure (AUDTEN) while the measure of auditor's liability was audit litigation (AUDLIT). Both audit fee and audit firm size were logged to base 10. Data on the variables are presented in Appendix I.

Descriptive Analysis

The descriptive statistical analysis of the research data is presented in **Table 4.1** below.

Table 1 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.

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.

Model Diagnostics

Multi-collinearity Test

The Variance Inflation Factors (VIFs) was used to measure the amount of multi-collinearity in the multiple regression analysis. The VIF values are calculated for each predictor (independent) variable in the regression model, to help assess the potential impact of multi-collinearity on the coefficient estimates.

Table 2 Variance Inflation Factors

Date: 02/12/23 Time: 01:06

Sample: 1 150

Included observations: 150

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.015723	28.09807	NA
AUDFEE	0.000432	39.40248	1.872758
AUDFMSIZ	0.000192	20.06985	1.894242
AUDTEN	0.003166	4.262256	1.051357

Source: Eviews 10 Output

A VIF value of 10 indicates that there is a high multicollinearity between the predictor variable and the other predictors in the model. Values greater than 10 indicate the presence of high multicollinearity. A general rule of thumb is that VIF values of greater than 10 indicate high levels of multicollinearity and may warrant further investigation. In table 4.2, all of the "centered" VIF values are below 2, which suggests that there is relatively low multicollinearity among the predictor variables in the model.

Autocorrelation

The Breusch-Godfrey Serial Correlation LM Test was used to test for autocorrelation in the regression model. A low p-value (typically below 0.05) indicates that there is evidence of autocorrelation in the regression residuals, while a high p-value suggests the absence of autocorrelation.

Table 3 Breusch-Godfrey Serial Correlation LM Test:

F-statistic	2.538078	Prob. F(2,144)	0.0825
Obs*R-squared	5.107614	Prob. Chi-Square(2)	0.0778

Source: Eviews 10 Output

The test statistic is the F-statistic, which is 2.538078 in this case. The probability of the F-statistic being observed by chance, given the null hypothesis of no autocorrelation, is 0.0825. With a p-value of 0.0825 (for the F-statistic), the empirical evidence shows that the model does not suffer the problem of autocorrelation at a 0.05 significance level.

Heteroskedasticity Test

The Breusch-Pagan-Godfrey test was used to test for heteroscedasticity in the regression model. Heteroskedasticity is a condition where the variance of the error term is not constant across all levels of the independent variables. A low p-value (typically below 0.05) suggests that there is evidence of heteroskedasticity in the residuals, while a high p-value indicates the absence of heteroskedasticity.

Table 4 Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.216778	Prob. F(3,146)	0.8846
Obs*R-squared	0.665188	Prob. Chi-Square(3)	0.8814
Scaled explained SS	2.323412	Prob. Chi-Square(3)	0.5081

Source: Eviews 10 Output

The test statistic in the Breusch-Pagan-Godfrey test is the F-statistic, which is 0.216778 in this case. The Prob. F(3,146) is the probability of observing this F-statistic by chance, given the null hypothesis of homoskedasticity (constant variance), and it is 0.8846. The p-value of 0.8846 (for the F-statistic) exceeded 0.05. This means that the residuals are not heteroskedastic.

Hausman Specification Test

The Hausman test was used to test for correlated random effects in the panel data regression model. The test compared two different models: one with random effects and another with fixed effects.

Table 5 Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	5.591873	3	0.1332

Source: Eviews 10 Output

The test statistic is the Chi-Squared Statistic, which is 5.591873 in this case. The Chi-Sq. d.f. represents the degrees of freedom of the test statistic and is 3 in this case. The Prob. is the probability of observing the test statistic by chance, given the null hypothesis of no correlated random effects, and it is 0.1332. Since the p-value exceeded 0.05 alpha level, it implies that the random effect is uncorrelated, warranting the need for Random Effect Estimation.

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 6** below, the results of OLS and Fixed Effect Estimations are presented in Appendix II and Appendix III, respectively.

Table 6 Hypothesis Testing

Dependent Variable: AUDLIT

Method: Panel EGLS (Cross-section random effects)

Date: 02/12/23 Time: 01:09

Sample: 2016 2021

Periods included: 6

Cross-sections included: 25

Total panel (balanced) observations: 150

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 2016 to 2021, with 6 periods and 25 cross-sections, resulting in a total of 150 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.

Hypothesis I

H0: Audit fees do not significantly affect audit litigation and fine of selected listed firms in Nigeria.

The coefficient for audit fee is -0.060406 and its corresponding p-value is 0.0199, which is less than 0.05. This indicates that the relationship between audit fee and audit litigation is significant and negative. This means that as audit fee increases, the likelihood of audit litigation decreases. The magnitude of this effect is relatively small, with a one unit increase in audit fee resulting in a decrease of 0.060406 units in the outcome of audit litigation.

Given that the p-value = 0.0199 is less than 0.05, the alternate hypothesis was accepted with the conclusion that Audit fees significantly and negatively affect audit litigation and fine of selected listed firms in Nigeria (p-value = 0.0199).

Hypothesis II

H0: Audit firm size does not significantly affect audit litigation and fine of selected listed firms in Nigeria.

The coefficient for audit firm size is -0.047430 and its corresponding p-value is 0.0039, which is less than 0.05. This indicates that the relationship between audit firm size and audit litigation is significant and negative. This means that as audit firm size increases, the likelihood of audit litigation decreases. The magnitude of this effect is relatively small, with a one unit increase in audit firm size resulting in a decrease of 0.047430 units in the outcome of audit litigation.

Given that the p-value = 0.0039 is less than 0.05, the alternate hypothesis was accepted with the conclusion that Audit firm size significantly and negatively affects audit litigation and fine of selected listed firms in Nigeria (p-value = 0.0039).

Hypothesis III

H0: There is no cordial relationship between auditor's tenure and audit litigation and fine of selected listed firms in Nigeria.

The coefficient for audit tenure is -0.005755 and its corresponding p-value is 0.9185, which is greater than 0.05. This indicates that the relationship between audit tenure and audit litigation is not significant. The p-value of 0.9185 suggests that there is a strong chance that the observed relationship between audit tenure and audit litigation is due to chance and not due to a real relationship.

Given that the p-value = 0.9185 is greater than 0.05, the null hypothesis was accepted with the conclusion that the negative relationship between auditor's tenure and audit litigation and fine of selected listed firms in Nigeria is not significant (p-value = 0.9185).

Discussion of Findings

Finding 1: Audit fees significantly and negatively affect audit litigation and fine of selected listed firms in Nigeria.

This result suggests that higher audit fees are associated with a lower likelihood of audit-related litigation and fines among the selected listed 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 and fines. 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.

Finding 2: Audit firm size significantly and negatively affects audit litigation and fine of selected listed firms in Nigeria.

This result suggests that larger audit firms are associated with a lower likelihood of audit-related litigation and fines among the selected listed 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 and fines. 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.

Finding 3: The negative relationship between auditor's tenure and audit litigation and fine of selected listed firms in Nigeria is not significant.

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 and fines among the selected listed 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 and fines.

Conclusion

The research findings on the effect of audit quality on auditor's liability among selected listed firms in Nigeria provide insights into the factors that may impact the likelihood of audit-related litigation and fines. The results show that higher audit fees and larger audit firm size are associated with a lower likelihood of audit-related litigation and fines, 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 and fines 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.

Similarly, larger audit firms may have more resources, experience, and a better reputation, which can help to reduce the likelihood of audit-related litigation and fines. The lack of significance between auditor's tenure and audit litigation and fines, on the other hand, suggests that the length of time an auditor has been with a particular firm may not be the key factor in reducing the likelihood of audit-related litigation and fines. This finding highlights the importance of focusing on other factors, such as the quality of the auditor's work and the reputation of the audit firm, when assessing audit quality. The implications of these findings are relevant for regulators, stakeholders, and the auditing industry as a whole.

Recommendations

1) Audit firms should increase their 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 size of the audit firm when evaluating the financial statements of firms. Larger audit firms may have more resources, experience, and a better reputation, which can help to reduce the likelihood of audit-related litigation and fines.

3) Auditing firm 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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