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DETERMINANTS OF EXTERNAL AUDITORS' ROTATION IN LOCAL GOVERNMENT COUNCILS OF KADUNA STATE

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Abstract

This study examined empirically the determinants of external auditors' rotation in Kaduna State Local Governments. A survey of local government directors of finance, internal auditors, area auditors and local government inspectors was conducted to collect data on perceptions of attributes important in the external auditors' appointment(rotation) decision in Kaduna State Local Governments. The population of the study comprised all the 23 Local Governments of Kaduna State. The sample size was 15 local governments drawn using stratified random sampling techniques. Data were obtained from primary sources through the use of questionnaire. Descriptive statistics and logistics regression technique were employed as the methods of data analysis. The study found that auditor and audit environmental attributes relating to audit quality, specifically reputation and tender documents, were perceived to be the most important considerations in auditors' appointment(rotation)decision. The study recommended that

auditor general for local governments should consider the quality of tender document or process in appointing new auditors and also recommended that auditor general for local governments should consider appointing reputable audit firms that are well known in audit quality service provision.

Keywords: Auditors, Audit Rotation, Kaduna State

1.1 Introduction

Appointment of auditors' in the Nigerian public sector is guided by the 1999 Constitution of the Federal Republic of Nigeria. Specifically, according to section 86 of 1999 constitution, the Auditor General for the Federation is appointed by the president on the recommendation of the Federal Civil Service Commission, subject to confirmation of the Senate. At the state level, the Auditor General is appointed in accordance with section 125 of the same constitution which states that "Auditor General of a state and the Auditor General for the local government of a state shall be appointed by the Governor of the state on the recommendation of the state civil service commission subject to confirmation by the State House of Assembly.

At the Local Government level, the appointment and rotation of internal auditors to Local Government is the sole responsibility of the local government service commission, established in 1989 under the local government reforms to take care of each Local Government in the country, with respect to administration of local government. In contrast, the area auditors to local governments are appointed and sent to the various local governments by the office of the Auditor General for local governments whose appointment is guided by the Financial Memoranda for Local Government section 39 (1) of 1991 and section 7 of Audit Act/Ordinance of 1956 in addition to the provision of the 1999 Constitution of the Federal Republic of Nigeria.

Under the current dispensation, there are two forms of external auditing at the local Government level, one of which is the area auditors sent to the local governments by the office of the Auditor General for Local Governments. The other form of external auditing to Local Governments is hiring the services of external auditors (audit firms) by the Auditor General for Local Governments to audit the accounts of Local Governments if he is not satisfied with the quality of audit work conducted by the staff of his office as provided for in section 42 of

Kaduna State Government Edict 2003. The edict introduced the idea of external auditor procurement for local councils in the state. Under the edict, Kaduna State Auditor General for Local Governments is required to call tenders for audit services at the end of the year if he is not satisfied with the quality of audit services provided by his staff and to make a decision on each occasion whether to reappoint the incumbent auditor or to appoint a new auditor for the following one year tenure period.

The decision to appoint a new auditor (rotation decision) or to re-appoint the incumbent auditor (retention decision) at the local government level will be based on whether the local governments are satisfied or dissatisfied with the quality of the audit services provided by the audit firm, certain procedures to be followed and certain factors to be taken into consideration. Auditor rotation is typically seen as involving both change and selection decisions (Eichenseher and Shields, 1983; Francis and Wilson, 1988; Beattie and Fearnley, 1998b; Sands and Huang, 2002; and, Sankaraguruswamy and Whisenant, 2004). That is, a decision is made firstly to change audit firm, and then subsequently a new audit firm is selected. A change decision “involves a negative aspect - dissatisfaction with some trait of the currently engaged accounting firm” (Hermanson, Plunkett and Turner, 1994:102). For example, clients may be dissatisfied with the level of audit fees, the working relationship with the firm or failure to produce timely reports. More specifically, a change decision involves identifying problems or ‘mismatches’ (change factors) between the audit services demanded by the client and those supplied by the incumbent auditor with the mismatches likely to motivate a decision to change audit firms (Sands and Huang, 2002). A client is only likely to be motivated to change auditor if there is a change in the characteristics of the client (demand), the desired auditor (supply) or the auditing environment, because auditor switching costs are material (DeAngelo, 1981; Beattie and Fearnley, 1998a; and, Sands and Huang, 2002). Sands and Huang (2002) argued that auditor (supply) characteristics are the key influence in the auditor change (rotation) decision.

In the auditor selection decision, information is gathered about alternative audit firms by calling for tenders or inviting quotations from audit firms that possess the desired auditor attributes (Sands and Huang, 2002). The process of selecting a replacement auditor involves comparisons of positive auditor (supply-side) attributes of the competing firms, e.g., a strong reputation or an industry specialist (Hermanson et al., 1994; Sands and Huang, 2002). In addition, Beattie and Fearnley (1998a) and Woo and Koh (2001) suggested that both supply-side and demand-side (e.g., the client’s financial condition) characteristics are likely to be influential in the type, size and class of audit firm selected.

Despite the large body of auditor-client alignment/realignment literature, few studies have examined external auditors' appointment at the local government level. Attributes documented as affecting internal auditors' appointment (Beattie and Fearnley, 1998a, 1998b) may not be generalizable to external auditors' appointment because, as Nagy (2005) notes a company's need to make decision is fundamentally different from a company's desire to make a decision. In view of this, it is observed that the attributes that are important in external auditors' appointment may differ from the attributes that are important in internal auditors' appointment.

The recurring question related to the determinants of external auditors' rotation in Kaduna State Local Governments is what auditor and audit environmental attributes affect auditor appointment (rotation) decisions in the State Local Government Areas? It is in light of the above that this study aims at examining the important attributes of external auditors' rotation in the State Local Government Areas. The study hypothesizes that audit attributes have no significant influence on external auditor's rotation in Kaduna State Local Governments. The study is restricted to the perceptions of directors of finance, internal auditors, area auditors and inspectors on the important attributes of external auditors' rotation in fifteen (15) Kaduna state local governments within a period of 2 months, starting from 23/03/2015 to 23/05/2015.

The study contributes to the auditor choice literature by examining the potential influence of a range of auditor and audit environmental attributes on auditor's rotation decisions in Kaduna State Local Governments. Another expected practical contribution of the study is that it allows audit firms to better understand auditor and audit environmental attributes valued by local council clients, and consequently, to differentiate their promotional and service-provision strategies to accord with those attributes, as well as to improve their own audit quality in a local council context and to deliver more satisfactory services to local council clients.

The remainder of the paper is organized as follows. Section two reviews relevant literature relating to audit attributes, Section three deals with methodological issues of the paper, Section four analyzed the data and discusses findings of the study, Section five concludes the study and proffers recommendations.

2.1 Review of Empirical Studies

A number of auditor (supply-side) and audit environmental (audit engagement) attributes were identified for examination of their perceived importance in external auditors' appointment (rotation) decisions. The attributes were identified from the multi-attribute studies that focus on auditor appointment from a behavioural perspective. These studies include Barlev (1977), Deloitte, Haskins and Sells (1978), George and Solomon (1980), Eichenseher and Shields (1983), Gabhart and Miller (1984), Casabona and Barbera (1987), Addams and Davis (1994), Hermanson et al. (1994), Scott and van der Walt (1994), Beattie and Fearnley (1995), Addams and Davis (1996), Beattie and Fearnley (1998a & b), Rummel et al. (1999), Stanny et al. (2000), Addams and Allred (2002), Sands and Huang (2002), Sands and McPhail (2003) and Sankaraguruswamy and Whisenant (2004), Chi, Huang, Liao, and Xie (2009), Adeyemi, Okapala, and Dabor (2012), Enofa, Mgbame, Aderin, and Ehi-Oshio (2013).

Five broad categories of attributes were identified from these studies. These were two supply-side (auditor) attributes of audit firm reputation and technical competence; and three audit environmental characteristics of the audit fee, relationships with the incumbent audit firm, and tender documents/process. These five categories of attributes are used in the hypotheses development and statement of specific objectives for this study. The attributes are further classified into more detailed sub-groupings by the way in which each of the attributes is measured (i.e. the proxies). These individual items are used in the survey questionnaire to test the hypotheses formulated for the study.

Audit firms are likely to face competitive challenges from their counter part and they are at risk of losing their brand name, image or reputation and client base if lower quality audit services are provided. It is therefore important that audit firms provide quality audit services at a low cost in order to compete favorably with the other firms, and to maintain their reputation (Jenfa, 2006). The consequences of a tarnished reputation contravene opportunistic behavior by an incumbent auditor. In the corporate world, there are theoretical evidences that specialized auditors attempt to protect their reputation capital through increased compliance with generally accepted auditing standards relative to non-specialist auditors (O'Keefe, King and Gaver, 1994). Empirically, Kanagaretnam, Lim and Lobo (2010) examined the relationship between auditor reputation and earnings management using 4,232 bank-year observations consisting of 29 countries. Using Wahlen (1994) model to estimate abnormal loan loss provision, they found that once auditor type and auditor industry specialization are included in the same tests, only auditor industry specialization has a significant impact on constraining benchmark beating behaviour. In addition, Al-Bawab (2012) conducted a study on

the factors which affect the choice of external auditor in Jordanian banks. He found a significant relationship between the choice of external auditor and reputation of the audit office and his previous experience in the audit. Also in a similar study by Al-Khaddash, Al-Nawas and Ramadan (2014) the result indicates a positive and significant correlation between audit quality and the reputation of auditing office and auditing fees. On the other hand, the reputation of audit firms can be negatively influenced by high-risk clients, and so, because of such influences, undoubtedly higher audit fee is charged by larger audit firms (Hogan, 1997). Boon et al. (2005) investigate the relationship between auditor rotation and factors affecting it. The result of the study showed that there is a positive and significant relationship between auditor rotation and technical competence, audit firm reputation and tender documents/process, while a negative and significant relationship with relationship with the incumbent audit firm, also a negative and insignificant relationship exist between auditor rotation and audit fees.

Technical competence is an auditor's "knowledge" and "individual know-how" with a technically competent auditor being "a qualified auditor with sufficient knowledge, qualification and experience to conduct a financial audit" (Richard, 2006:157). In Nigeria, audit staff members who are technically competent in terms of being members of the Institute of Chartered Accountants of Nigeria (ACA) or members of the Association of National Accountants of Nigeria (CNA), are likely to be more familiar with accounting and auditing standards and are more likely to detect material misstatements. Also, Craswell, Francis, and Taylor (1995), Hogan and Jeter (1999), Solomon, Shields, and Whittington (1999), Gramling and Stone (2001) and Velury et al (2003) noted that industry expertise is likely to be important in choosing local councils external auditors because industry experts (or specialists) have knowledge of the risks, opportunities and accounting practices of the client industry arising from training and punctual experience gained from auditing within the industry. According to Gramling and Stone (2001) it is clear that the expertise of the auditor plays an important role in auditor rotation. Demanding auditor competence and specialization in an industry leads to higher level of continuing education, technical competence and technical information. It is mainly due to auditor's potential ability to detect financial statement errors (Arrunada, 2000). In this case, industry expertise knowledge enhances the likelihood that auditors discover errors, and thereby, affect the probability of reporting the discovered errors (Hammersley, 2006). Requesting industry expertise can represent an incentive for audit firm to invest in expertise and to desire industry-based customers. This is mainly due to the fact that higher audit expertise can lead to higher audit quality (Francis, 2004). In other words, additional investment on expertise can cause positive effect on the audit fee

premium (Craswell et al., 1995). Hence, industry expertise is positively associated with audit fees and audit quality (Cahan, Godfrey, Hamilton, & Jeter, 2008). In addition, industry expertise, reinforced by auditors during the engagements, will lead to higher audit quality (Hussein & Hanefah, 2013). On the other hand, Stanley and Todd DeZoort (2007) find an inverse relationship between auditor industry specialization and audit fees and restatement of financial report for short tenure engagements. In summary, industry expertise advantages together with the general audit knowledge can enhance the audit technical ability and audit reputation and so increase audit quality as well as leading to a higher level of audit fees.

Audit fee as an important factor of auditor rotation and audit quality has been used in several studies, specifically in examining the link between audit quality and the size (DeAngelo, 1981; Francis, 2004; Hay and Davis, 2004). Greater audit fees are associated with the choice of qualified auditors (Hay and Davis, 2004). In spite of higher audit fee, some clients are more interested in using large audit firms. Clients are confident that large audit firms have greater monitoring and bonding in order to capture high audit quality (Hay & Davis, 2004). On the other hand, such higher audit fees, may lead to decrease auditor's independence (Defond et al., 2002), because higher audit fees can represent clients intention to get a clear audit report. Thereby, auditors may lose their independence and so their reputation. So, a negative effect between auditor reputation and audit fees can occur (Beattie & Fearnley, 1995). Al-Nimer (2015) examine the effect of specific contingency variables upon mandatory audit rotation using questionnaires administered on Jordanian audit firms including big four audit firms. The study revealed that there is insignificant positive relationship between the external auditor rotation and audit fees.

Also, results regarding the impact of auditor industry expertise on the level of audit fees to date have been contradictory, both in the for-profit (Pearson and Trompeter, 1994; Craswell, Francis and, Taylor, 1995; Cullinan, 1998) and the nonprofit sector (Ward and Elder, 1994; Deis and Giroux, 1996). Thus, overall, the evidence for an "expertise" audit fee premium is somewhat mixed. On the one hand, clients may be willing to pay more for an auditor with perceived expertise in the sector (market-based approach) and sector specialists need to keep their sector knowledge up to date, which requires training and sector-specific investments, increasing costs and thus audit fees (cost-based approach). On the other hand, sector specialists benefit from economies of scale, reducing the cost per client and consequently audit fees (cost-based approach) (Cullinan, 1998).

It is important that the client develops a close and good working relationship with the incumbent audit firm. A good working relationship is likely to result in auditor – client co-operation, an effective and efficient audit process and the audit firm being proactive in suggesting improvements to the operations and financial reporting practices of the client, (Jenfa, 2006). Cordial relationship of the auditor with his client is usually reflected in the auditor tenure, that is, the number of years that the auditor spends with his clientele. This relationship can also border on the quality of the audit. Varmeer (2006) noted that an auditor's extensive knowledge of the client's business environment, sectoral accounting practices and potential abusive accounting practices is perceived by stakeholders/investors as an information risk reducing factor. A long term relationships between auditors and clients may cause the familiarity between auditors and management which can lead to reduced auditor's independence and audit quality as well (Carey & Simnett, 2006). Such negative relationships between auditor tenure and audit quality have been widely investigated, for instance by Carey & Simnett, (2006); Choi & Doogar, (2005). Rotation initially can lead to lower audit quality due to the need to compensate the lack of client auditor knowledge (Francis, 2004). However, incumbent auditors may not report discovered misstatements. In this case, they are cheating by issuing a clean report which results from lower auditor independence and audit quality (DeAngelo, 1981). Therefore, there is an inverse relationship between the audit long tenure and the restatement financial report (Stanley & Todd DeZoort, 2007). In summary, long term relationships between auditors and client may reduce auditor's independence and thereby, decrease audit quality. On the other hand, mandatory auditor rotations can lead to addition costs due to the need for additional procedures by auditors.

Cripps and Ireland (1994:104) defines tender as “a statement of the price at which one offers to supply goods or services or to do something”. While Aliyu (2007: 153) defines it as “a proposal of some services which is usually made and presented as a result of an invitation and it is legally accepted as an offer for acceptance”. The quality of the tender documents and process is likely to be important in the auditor appointment decision because they are the audit firm's means of communicating to the council that it understands the council's strengths, deficiencies and needs (Addams and Davis, 1994; Addams and Allred, 2002). Beattie and Fearnley (1994) estimate that the incidence of tendering by 12 UK listed companies which had or had not changed auditor during the period 1987 to 1991 to be 55% and 6% respectively, with 82% of all tenders resulting in a change of auditor. Moizer (1994: 20) specifically identifies tendering as a means by which independence is threatened: “the use of tender process will enable the management to claim that the auditor was replaced because a cheaper one was

found and not for any reasons of dispute between the company and the audit firm”. Beattie and Fearnley (1998b) found that the choice of auditor in tender situations is not based solely on either fees or the expected quality of legal audit provided to the shareholders, but rather on factors such as the range and quality of non-audit service and expectations regarding the quality of future relationships. An interesting finding was that an error of judgement, a foolish remark, or a silly mistake at anytime during the tender process was likely to rule a firm out (Beattie & Fearnley, 1998b). Also, in a study of Beattie and Fearnley (1998a) positive statistically significant associations were found between unsolicited approaches and consideration of either a change in auditor or the conduct of competitive tender. Also, Tenders resulted in significant fee reductions in the year of change.

From an agency theory perspective the demand for auditing results from the information asymmetry between contracting agents in organizational settings (Jensen and Meckling, 1976). In the case of high information asymmetry, the degree and quality of required external monitoring is higher. Higher auditor quality results in better information because auditing will reduce agency risk (information risk) through better quality information. The unique characteristics of nonprofit organizations suggest that this principal-agent conflict-based approach must be modified for the nonprofit setting because of the absence of owners (Vermeer, 2006). In nonprofits the mix of revenue sources greatly affects the contracting environment, and this is expected to have an effect on an organization’s auditor choice decision. This study therefore adopts the agency theory to determine the client-auditor relationship in Kaduna state local government councils.

3.1 Methodology

The research designs of the paper are descriptive survey and correlation. The descriptive survey design focuses on the assessment of the respondents’ perceptions on the attributes important in the external auditors’ appointment decisions. The study uses correlation design to measure the relationship between the dependent variable and independent variables. The concern is to determine whether there is a significant relationship between the variables, the amount or degree of the relationship and its direction. The study collects data through the instrument of closed questionnaire administered on 180 respondents consisting of directors of finance, internal auditors, area auditors and inspectors.

The population of the study consists of all the 23 local governments in Kaduna state. The population is divided into three strata, based on the three senatorial

zones in the state. In the state, Kaduna central senatorial zone has seven (7) local government areas under it, Kaduna North senatorial zone has eight (8) Local government areas; and the remaining eight (8) Local government areas fall under Kaduna South senatorial zone, making a total of twenty three (23) local government areas in the state. From each of the strata, five (5) local governments were selected at random, based on random sampling techniques and by applying 65% on the population as a sampling percentage (Bertaux, 1981:35, & Gay, 1987:101). The population and sample of the study are attached in Appendix B-1 and B-2.

The study uses logistic regression technique to analyse the data. This technique is often used in explaining the relationship between the explained and explanatory variables particularly when the dependent variable is binary. Descriptive statistics was employed to give a picture of the basic characteristic of the data and Pearson correlation was employed to examine the relationship between all pairs of independent variables.

The study collects data based on five (5) variables namely: audit firm reputation, technical competence, audit fee, relationship with incumbent audit firm, and tender documents or process. These variables have been identified in prior literature as likely having effect on auditor appointment rotation (Williams, 1988; Stanny, Anderson and Nowak, 2000; Woo and Koh, 2001; Boon et al, 2005). In order to establish the relationship between the dependent and independent variables, a regression equation was formulated in line with McClave and Benson (1991) as follows:

$$\therefore Y = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5 + \mu$$

(1)

Substituting the variables of the study into equation one, the regression equation is restated as follows:

$$EAR = \alpha + \beta_1 AFR + \beta_2 TEC + \beta_3 AUF + \beta_4 RIN + \beta_5 TED + \mu$$

(2)

Where:

EAR = is auditor rotation taking the form of 1 for rotation and 0 otherwise

α = Base Constant

$\beta_1 - \beta_5$ = Parameters to be estimated or regression coefficients of $x_1 - x_5$

AFR = Audit firm reputation (Measured by items/proxies 1-7 in the Questionnaire)

TEC = Technical Competence (Measured by items/proxies 8-10 in the Questionnaire)

AUF = Audit fee (Measured by items/proxies 11 & 12 in the Questionnaire)

RIN = Relationship with Incumbent audit firm (Measured by items/proxies 13-19 in the Questionnaire)

TED = Tender document or process (Measured by items/proxies 20-22 in the Questionnaire)

μ = Stochastic error term

4.1 Results and Discussion

The correlation matrix is presented in table 4.1. The full result is contained in appendix C-2

Table 4.1: Correlation Matrix

Variable	EAR	AFR	TEC	AUF	RIN	TED
EAR	1.0000					
AFR	0.2312	1.0000				
TEC	-0.1457	0.0399	1.0000			
AUF	0.0387	0.0928	0.2196	1.0000		
RIN	0.1396	-0.0958	-0.0531	-0.1140	1.0000	
TED	-0.1862	0.3455	0.2251	0.0055	-0.2905	1.0000

Source: Output of Correlation result using Stata 11.

Table 4.2 is the correlation matrix table. Correlation matrix reveals the relationship between all pairs of variables used in a regression model. It is sometimes used as an alternative test for multicollinearity to check for the excessive correlations between pairs of independent variables. The correlation coefficient exceeding 0.80 is an indication that the variables are excessively correlated and therefore cannot be used in the same regression model (Gujarati, 2004). The table reveals that there is mild correlation between all pairs of independent variables and therefore, multicollinearity is not an issue in the study model.

The result further indicates that audit firm reputation, audit fee and relationship with incumbent auditor have positive correlation with external auditors' rotation. This implies that these variables move in the same direction with rotation of external auditors. On the contrary, technical competence and tender documents have an inverse relationship with external auditors' rotation. It is also relevant to

mention that audit firm reputation is positively correlated with technical competence, audit fee and quality of tender documents. The result is highly practical and expected because reputable firms are filled with skilled and competent staff who know how to prepare appealing and tempting documents. They also have the power, to some extent, to determine the audit fee given the prestigious reputation that they enjoy. On the other hand those firms that are less reputable would seek to woo their clients by establishing good relationship with their clients. Lastly the table reveals negative relationship between relationship with incumbent auditor and all the explanatory variables.

The summary of the logistic regression output is given in table 4.3. The full results are contained in appendix C-3

Table 4.2: Summary of Logistic Regression Result

Variable	Coefficient	Std. Error	Z	Prob.> z
Constant	-1.82	7.62	-0.24	0.811
AFR	3.39	1.05	3.21	0.001
TEC	-2.07	1.61	-1.29	0.199
AUF	0.65	1.02	0.64	0.523
RIN	2.17	1.79	1.21	0.225
TED	-2.97	1.31	-2.27	0.023
R²		0.1279		
LR chi2 (5)		19.44		
Prob		0.0016		

Source: Summary of Regression Result using Stata 11

The estimated regression model is expressed thus:

$$Y = -1.82 + 3.39AFR - 2.07TEC + 0.65AUF + 2.17RIN - 2.97TED$$

From the regression result on table 4.3, audit firm reputation has a coefficient of 3.39 with a t- value of 3.21 which is significant at 1%. This implies that the rotation rate or chance increases at 3% as a result of 1% increase audit firm reputation.

Overall, the study found that reputation of the audit firm and tender documents/process attributes dominate in local council auditor rotation decisions. The highest rank attributes in local council auditor rotation decisions were; (i) the

audit firm overall reputation (ii) the firm's specific reputation in conducting local government audits (iii) quality of the audit firm written proposal. (ii) the quality of the firm's oral presentation. However, when the regression analysis was carried out, it was found that at 1% and 5% levels of significance, the regression was significant on external auditors' appointment (rotation) and audit firm reputation and tender document or process respectively. Accordingly, it was concluded that a positive linear relationship existed between external auditors' rotation and audit firm reputation and a negative linear relationship exists between external auditors' rotation and tender documents/process. This finding is not unexpected owing to the fact that more qualitative tender documents is a reflection of the audit firm's expertise in the field of auditing. It is, therefore, a pointer to the fact that local government councils are attracted by these documents and consequently seek to rotate the audit firms that present such tender documents that are less qualitative. The findings also confirm the study of Boon et al, (2005) which provided evidence of positive interaction between audit rotation and audit firm reputation in Australia. It, however, contradicts the findings of Beattie and Fearnley (1998b), and Johnson (1993) which report the rotation rates of 82% and 73% respectively in their similar studies in U.K. and Australia.

The table also reveals that the overall coefficient of determination (R^2) is 13% which implies that all the independent variables provide an explanation of only 13% about the changes in the external auditors' rotation decisions and other factors not captured in the model/study explained 87% of the change. The LR Chi2 of 19.44 signifies that the overall model is significant at 1% level of significance. Hence the model could be used for external auditors' appointment (rotation) decisions in 2015. This further indicates that there is a linear relationship between the dependent and independent variables used in the regression model.

5.1 Conclusions and Recommendations

This study examined the attributes affecting external auditors' appointment (rotation) decision in Kaduna state local governments. From the foregoing analysis and findings, four conclusions with respect to external auditors' rotation may be drawn. The first is that while audit firm reputation is an important attribute in local council external auditors' appointment (rotation) decisions, it is the extent of the firm's overall reputation and the firm's specific reputation in conducting local governments' audit that are important. Secondly, quality of tender documents inversely impact on auditors' rotation in the local government councils in Kaduna State. Based on the findings reported, the study suggests that the local council policy-setters may be able to consider appointing reputable audit

firm that are well known in audit quality service provision and also consider tender documents or process when taking a decision to appoint a new auditor.

A limitation of this study is that it focuses on the perceptions of local council director of finance, internal auditors, area auditors and inspectors only. This limits the generalizability of the findings. Although directors of finance are major participants in auditor appointment decisions in local government, the perceptions of other stakeholders or observers of local government auditing might report different perceptions of the importance of auditor and audit environmental attributes in local council auditor appointment (rotation) decisions. Also, local government is just one audit service market. This market has the benefit for this study and hence allowed the examination of auditor appointment decisions. Another limitation of the study relates to restricting the study to only Five (5) variables from the pool of tens of variables as contained in the literature which led to arriving at overall coefficient of determination (R^2) of 13% only.

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DESCRIPTIVE STATISTICS (C-1)



Statistics/Data Analysis

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11.2

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Notes:

1. (/m# option or -set memory-) 50.00 MB allocated to data
2. (/v# option or -set maxvar-) 5000 maximum variables

. edit

. *(6 variables, 160 observations pasted into data editor)

. summarize ear afr tec auf rin ted

variable	Obs	Mean	Std. Dev.	Min	Max
ear	115	.626087	.4859584	0	1
afr	160	2.62475	.2206108	2.14	3
tec	160	2.827125	.3644266	1	3
auf	160	2.909375	.2162566	2	3
rin	160	2.807375	.1229536	2	3
ted	160	2.819125	.1885375	2.33	3

CORRELATION MATRIX (C-2)

. correlate
 (obs=115)

	ear	afr	tec	auf	rin	ted
ear	1.0000					
afr	0.2312	1.0000				
tec	-0.1457	0.0399	1.0000			
auf	0.0387	0.0928	0.2196	1.0000		
rin	0.1396	-0.0958	-0.0531	-0.1140	1.0000	
ted	-0.1862	0.3455	0.2251	0.0055	-0.2905	1.0000

REGRESSION RESULTS (LOGIT) (C-3)

```
. logit ear afr tec auf rin ted
```

```
Iteration 0: log likelihood = -76.015629
Iteration 1: log likelihood = -66.700357
Iteration 2: log likelihood = -66.304979
Iteration 3: log likelihood = -66.294511
Iteration 4: log likelihood = -66.294511
```

```
Logistic regression
```

```
Number of obs = 115
LR chi2(5) = 19.44
Prob > chi2 = 0.0016
Pseudo R2 = 0.1279
```

```
Log likelihood = -66.294511
```

ear	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
afr	3.390517	1.05473	3.21	0.001	1.323285	5.45775
tec	-2.071034	1.611243	-1.29	0.199	-5.229011	1.086943
auf	.6547483	1.025959	0.64	0.523	-1.356095	2.665591
rin	2.16921	1.789389	1.21	0.225	-1.337928	5.676348
ted	-2.974384	1.307572	-2.27	0.023	-5.537179	-.4115894
_cons	-1.81654	7.615758	-0.24	0.811	-16.74315	13.11007

GOODNESS OF FIT (C-4)

```
. estat gof
```

```
Logistic model for ear, goodness-of-fit test
```

```
number of observations = 115
number of covariate patterns = 55
Pearson chi2(49) = 48.54
Prob > chi2 = 0.4916
```

```
. lroc
```

```
Logistic model for ear
```

```
number of observations = 115
area under ROC curve = 0.7193
```

