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## Effect of Firm Attributes on Auditor Choice of Listed Non-Financial Firms in Nigeria

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### Abstract

This study examines the effect of firm attributes on auditor choice among listed non-financial firms in Nigeria. Specifically, it investigates how firm size, firm age, leverage, profitability, and liquidity influence the likelihood of selecting Big Four audit firms. Using an ex-post facto research design and a balanced panel dataset comprising 890 firm-year observations from 89 listed non-financial firms over the period 2015–2024, the study employs a Random Effects logistic regression model for analysis. The findings indicate that firm size and profitability exert positive and statistically significant effects on the probability of engaging Big Four auditors, whereas leverage has a significant negative effect. In contrast, firm age and liquidity do not significantly influence auditor choice. The results suggest that auditor selection among Nigerian listed non-financial firms is primarily driven by firm size, profitability, and capital structure considerations. The study contributes to the auditor choice literature by providing empirical evidence from an emerging market context and offers insights for regulators, investors, and corporate decision-makers regarding the firm-specific factors associated with the demand for high-quality audit services

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### Introduction

In the contemporary corporate landscape, the selection of external auditors represents one of the most consequential governance decisions that firms make, with far-reaching implications for financial reporting quality, stakeholder confidence, and capital market efficiency (Wahab *et al*, 2021) <sup>[30]</sup>. The growing importance of credible financial reporting has made auditor choice a major concern in public corporate accountability. The external auditor serves as an independent assurance mechanism that enhances trust in financial statements and supports sound corporate governance. However, in practice, firms may not always choose auditors primarily on the basis of quality, independence, or reporting credibility. Instead, auditor selection may be influenced by firm-specific pressures such as operational size, profitability level, leverage position, or financial convenience.

Auditor choice, particularly the decision to engage one of the Big Four accounting firms (Deloitte, PricewaterhouseCoopers, Ernst & Young, and KPMG) versus non-Big Four auditors, has attracted considerable scholarly attention due to its association with audit quality, earnings management, and firm valuation (Alzoubi, 2022; Baatwah *et al*, 2023) <sup>[6, 8]</sup>. The distinction between Big Four and non-Big Four auditors is predicated on the assumption that larger audit firms possess superior resources, expertise, reputation capital, and independence that translate into higher quality audits and greater credibility in the eyes of investors and other stakeholders (DeAngelo, 1981; Pham *et al*, 2021) <sup>[14, 26]</sup>.

The significance of auditor choice extends beyond mere compliance with statutory audit requirements. In an era characterized by increasing financial complexity, heightened regulatory scrutiny, and growing investor sophistication, the engagement of reputable auditors serves as a signaling mechanism through which firms communicate their commitment to transparency and accountability (Habib *et al*, 2021) <sup>[17]</sup>.

For stakeholders, particularly investors and creditors, the identity of a firm's auditor provides valuable information about the reliability of financial statements and the overall quality of corporate governance (Al-Qadasi *et al.*, 2022) <sup>[5]</sup>. Consequently, understanding the factors that drive auditor choice has become essential for regulators seeking to enhance audit market competition, investors assessing firm quality, and managers making optimal governance decisions (Ghafran & Yasmin, 2022) <sup>[16]</sup>.

Auditor choice has become a serious concern in corporate governance because the type of external auditor engaged by a firm can influence the credibility of financial reports, investor confidence, and the overall integrity of the financial reporting process. In Nigeria, where concerns about weak governance, unreliable disclosures, earnings manipulation, and declining stakeholder trust still persist in some sectors, the appointment of a high-quality and independent auditor is not merely a routine compliance matter but a critical governance decision.

Within the Nigerian context, the auditor choice decision assumes particular importance given the country's evolving corporate governance framework and the ongoing efforts to strengthen financial reporting practices (Ozili, 2022) <sup>[25]</sup>. The Nigerian corporate environment is characterized by a mix of large multinational corporations, well-established domestic conglomerates, and emerging enterprises, all operating within a regulatory framework that has undergone significant transformation in recent years (Adegboye *et al.*, 2020) <sup>[1]</sup>. The introduction of the Nigerian Code of Corporate Governance (NCCG) 2018, the adoption of International Financial Reporting Standards (IFRS), and the enhanced regulatory oversight by the Financial Reporting Council of Nigeria (FRCN) have collectively heightened the demand for high-quality external audits (Efobi *et al.*, 2022) <sup>[15]</sup>. These developments make it imperative to understand the firm-specific factors that influence auditor selection in the Nigerian setting.

Firm attributes, encompassing characteristics such as size, age, leverage, profitability, and liquidity, have been identified in the literature as significant determinants of auditor choice (Khurana & Raman, 2021; Alhadab & Clacher, 2023) <sup>[19, 4]</sup>. The theoretical rationale for examining these attributes is grounded in several frameworks, including agency theory, signaling theory, and the demand for audit quality framework (Jensen & Meckling, 1976; Watts & Zimmerman, 1983) <sup>[18, 31]</sup>. Firm size influences auditor choice through the complexity of operations, the breadth of stakeholder interests, and the capacity to afford premium audit services (Chen *et al.*, 2020) <sup>[12]</sup>. Firm age reflects organizational maturity, established relationships, and reputational considerations that may affect auditor preferences (Muliati *et al.*, 2023) <sup>[20]</sup>. Leverage captures the influence of creditors who may demand higher quality audits as a monitoring mechanism (Alfraih, 2020) <sup>[3]</sup>. Profitability signals financial health and the resources available for engaging premium auditors, while liquidity reflects short-term financial flexibility and operational efficiency (Caban-Garcia *et al.*, 2021) <sup>[10]</sup>.

Despite the extensive research on auditor choice determinants globally, significant gaps persist in the literature concerning the Nigerian context. The first major gap is empirical in nature. While numerous studies have examined auditor choice in developed markets, particularly the United States and Europe, research focusing specifically on Nigerian non-financial firms remains limited (Oyedokun *et al.*, 2022) <sup>[24]</sup>.

The few existing Nigerian studies have often focused on narrow samples, shorter time periods, or specific industries, limiting the generalizability of their findings (Appah & Issac, 2023) <sup>[7]</sup>. This creates a need for comprehensive research that examines the full spectrum of firm attributes across a broad sample of Nigerian listed non-financial firms over an extended period.

A second critical void is methodological. Many prior studies in Nigeria have employed cross-sectional research designs or simple logistic regression models that fail to account for the panel nature of the data and the potential for unobserved firm-specific heterogeneity (Oladipupo & Monye-Emina, 2021) <sup>[23]</sup>. The use of panel data techniques, particularly random effects models, offers a more robust approach for controlling unobserved firm characteristics and capturing both cross-sectional and temporal variations in auditor choice (Bell *et al.*, 2019) <sup>[9]</sup>. The underutilization of such advanced econometric techniques in Nigerian research creates an opportunity for methodologically superior investigations.

Finally, there exists a significant contextual gap. The Nigerian business environment has undergone substantial changes in recent years, including the economic recession of 2016 the COVID-19 pandemic, fluctuating oil prices, and ongoing regulatory reforms (CBN, 2023) <sup>[11]</sup>. These developments have fundamentally altered the operating environment for Nigerian firms, potentially affecting their auditor choice decisions in ways not captured by older studies. The impact of these contemporary dynamics on the relationship between firm attributes and auditor choice has been scarcely investigated, leaving a crucial knowledge gap for regulators, investors, and corporate managers.

The motivation for this study stems directly from the empirical inconsistencies, methodological weaknesses, and pressing contextual gaps identified above. The dynamic and unique institutional setting of the Nigerian corporate sector, coupled with recent profound environmental changes, provides a compelling reason to examine the relationship between firm attributes and auditor choice using current data and rigorous analytical methods. Such a study is needed to provide updated, reliable evidence that can inform audit policy, guide investment decisions, and help firms optimize their auditor selection strategies in the contemporary Nigerian business environment (Adeyemi *et al.*, 2022) <sup>[2]</sup>.

Therefore, the primary objective of this study is to empirically examine the effect of firm attributes on auditor choice (measured as the selection of Big Four versus non-Big Four auditors) of listed non-financial firms in Nigeria. Specifically, the study seeks to examine the effect of firm size on auditor choice, determine the effect of firm age on auditor choice, assess the effect of leverage on auditor choice, investigate the effect of profitability on auditor choice, and evaluate the effect of liquidity on auditor choice among listed non-financial firms in Nigeria. These objectives are justified by the critical need to resolve existing empirical gaps and provide actionable insights for key stakeholders.

## Literature Review

### Auditor choice

Auditor choice refers to a firm's decision regarding the selection of its external auditor, typically conceptualized as the choice between engaging a Big Four audit firm or a non-Big Four auditor (Alzoubi, 2022) <sup>[6]</sup>. The Big Four audit firms Deloitte, PricewaterhouseCoopers (PwC), Ernst & Young (EY), and KPMG dominate the global audit market and are

generally perceived to provide higher quality audits due to their superior resources, technical expertise, global reach, and reputation capital (DeAngelo, 1981; Baatwah *et al.*, 2023)<sup>[14, 8]</sup>. The theoretical foundation for distinguishing between Big Four and non-Big Four auditors rests on the premise that larger audit firms have greater incentives to maintain audit quality because they have more reputation capital at stake and face higher litigation risk (Quick & Warming-Rasmussen, 2020)<sup>[27]</sup>. Auditor choice is typically operationalized as a binary variable, coded as 1 if a firm engages a Big Four auditor and 0 otherwise (Ghafran & Yasmin, 2022)<sup>[16]</sup>. This binary classification, while simplifying the complex reality of audit quality differentiation, provides a tractable framework for empirical investigation and has been widely adopted in the auditing literature. The selection of external auditors is influenced by various factors, including firm characteristics, governance mechanisms, ownership structure, and industry-specific considerations (Khurana & Raman, 2021)<sup>[19]</sup>.

### Firm size

Firm size represents the scale of a company's operations and is one of the most extensively studied determinants of auditor choice (Chen *et al.*, 2020)<sup>[12]</sup>. Larger firms typically have more complex operations, a wider geographic presence, and a broader base of stakeholders, including shareholders, creditors, analysts, and regulators, who demand high-quality financial information (Habib *et al.*, 2021)<sup>[17]</sup>. The complexity of larger firms' transactions and the need for specialized expertise in areas such as international taxation, financial instruments, and segment reporting create a natural demand for the services of Big Four auditors who possess the requisite resources and expertise (Al-Qadasi *et al.*, 2022)<sup>[5]</sup>. From an agency theory perspective, larger firms are characterized by greater separation between ownership and management, creating higher potential for agency conflicts and a correspondingly greater demand for monitoring mechanisms, including high-quality external audits (Jensen & Meckling, 1976)<sup>[18]</sup>. Additionally, larger firms typically have the financial resources to afford the premium fees charged by Big Four auditors, removing a significant barrier to engaging these prestigious firms (Alhadab & Clacher, 2023)<sup>[4]</sup>. Firm size is commonly measured as the natural logarithm of total assets, which normalizes the distribution and facilitates comparison across firms of different scales (Dang *et al.*, 2018)<sup>[13]</sup>.

### Firm age

Firm age refers to the number of years since a company's incorporation or establishment, reflecting the organization's maturity, accumulated experience, and historical development (Muliati *et al.*, 2023)<sup>[20]</sup>. Older firms have typically developed established relationships with various stakeholders, including auditors, and may exhibit different auditor choice patterns compared to younger firms (Wahab *et al.*, 2021)<sup>[30]</sup>. The relationship between firm age and auditor choice is theoretically ambiguous, with competing perspectives suggesting both positive and negative associations. On one hand, older firms may have stronger reputational incentives to engage Big Four auditors as a means of maintaining their established credibility and meeting the expectations of long-standing stakeholders (Pham *et al.*, 2021)<sup>[26]</sup>. On the other hand, older firms may have developed deep relationships with their incumbent

auditors, potentially reducing the likelihood of switching to Big Four firms if the incumbent is a non-Big Four auditor (DeAngelo, 1981)<sup>[14]</sup>. Additionally, older firms may have accumulated sufficient reputational capital through their track record, reducing their reliance on Big Four auditors as signaling mechanisms (Caban-Garcia *et al.*, 2021)<sup>[10]</sup>.

### Leverage

Leverage, defined as the proportion of debt in a firm's capital structure, reflects the extent to which a firm relies on borrowed funds to finance its operations and growth (Myers, 1977)<sup>[21]</sup>. The relationship between leverage and auditor choice is grounded in agency theory, which posits that debt creates agency conflicts between shareholders and creditors (Jensen & Meckling, 1976)<sup>[18]</sup>. Creditors, seeking to protect their claims, may demand higher quality financial reporting and external monitoring as conditions for lending, potentially driving leveraged firms toward Big Four auditors (Alfrah, 2020)<sup>[3]</sup>. However, the relationship between leverage and auditor choice may also be influenced by financial constraints. Highly leveraged firms may face cash flow pressures that limit their ability to afford Big Four audit fees, pushing them toward less expensive non-Big Four alternatives (Alhadab & Clacher, 2023)<sup>[4]</sup>. Additionally, firms experiencing financial distress may be avoided by Big Four auditors who seek to protect their reputation from association with potentially failing clients (Khurana & Raman, 2021)<sup>[19]</sup>. Leverage is typically measured as the ratio of total debt to total assets.

### Profitability

Profitability measures a firm's ability to generate earnings relative to its resources and represents a fundamental indicator of financial health and operational efficiency (Pham *et al.*, 2021)<sup>[26]</sup>. Profitable firms are theoretically expected to have a higher propensity to engage Big Four auditors for several reasons. First, profitable firms have greater financial resources to afford the premium fees associated with Big Four audits (Ghafran & Yasmin, 2022)<sup>[16]</sup>. Second, profitable firms have stronger incentives to signal their quality to capital markets through the engagement of reputable auditors (Titman & Trueman, 1986)<sup>[29]</sup>. Third, from an agency theory perspective, profitable firms may face heightened scrutiny from shareholders and other stakeholders regarding the distribution of earnings, creating demand for high-quality audits to ensure the integrity of reported profits (Watts & Zimmerman, 1983)<sup>[31]</sup>. Conversely, loss-making or marginally profitable firms may lack the resources for Big Four engagement and may also be less attractive clients for Big Four firms concerned about reputational risks associated with financially troubled companies (Al-Qadasi *et al.*, 2022)<sup>[5]</sup>. Profitability is commonly measured as return on assets (ROA), calculated as net income divided by total assets.

### Liquidity

Liquidity refers to a firm's ability to meet its short-term obligations using its current assets, reflecting operational efficiency and financial flexibility (Caban-Garcia *et al.*, 2021)<sup>[10]</sup>. The relationship between liquidity and auditor choice is less extensively studied compared to other firm attributes but is theoretically relevant from both resource availability and signaling perspectives. Firms with higher liquidity have greater short-term financial flexibility, potentially enabling them to allocate resources for premium

audit services (Muliati *et al.*, 2023) <sup>[20]</sup>. However, the relationship may be more nuanced. Extremely high liquidity levels might indicate inefficient use of assets or conservative financial management that does not necessarily correlate with demands for premium audit services (Alhadab & Clacher, 2023) <sup>[4]</sup>. Additionally, liquidity constraints in the short term might not directly influence long-term commitments such as auditor engagement decisions. Liquidity is typically measured using the current ratio, calculated as current assets divided by current liabilities.

### Empirical Review

Empirical literature presents a consistent and robust case for a positive relationship between firm size and the selection of Big Four auditors. This relationship is one of the most well-documented findings in the auditor choice literature. Chen *et al.* (2020) <sup>[12]</sup> established that larger firms are more likely to engage larger, more reputable audit firms due to their complex operations and greater stakeholder demands. Habib *et al.* (2021) <sup>[17]</sup> provided further evidence demonstrating that firm size is a significant positive predictor of Big Four auditor selection across multiple jurisdictions. More recent studies have corroborated these findings across different markets and time periods. Ghafran and Yasmin (2022) <sup>[16]</sup> found that firm size positively influences the probability of selecting Big Four auditors, attributing this relationship to the complexity of operations and the need for specialized audit expertise. Alhadab and Clacher (2023) <sup>[4]</sup> reported similar findings, noting that larger firms have greater needs for the international networks and specialized services that Big Four firms provide. Al-Qadasi *et al.* (2022) <sup>[5]</sup> extended this evidence to emerging market contexts, finding that firm size is a consistent predictor of Big Four selection. In the Nigerian context, Oyedokun *et al.* (2022) <sup>[24]</sup> and Appah and Issac (2023) <sup>[7]</sup> both documented positive associations between firm size and Big Four auditor selection, consistent with the global evidence.

The empirical evidence on the relationship between firm age and auditor choice is mixed and inconclusive, reflecting the theoretical ambiguity surrounding this relationship. Some studies have found positive associations, suggesting that older firms prefer Big Four auditors to maintain their established reputation. Wahab *et al.* (2021) <sup>[30]</sup> provided evidence that more established firms tend to engage larger auditors as part of their broader governance and signaling strategies. Conversely, other studies have found negative or insignificant relationships. Muliati *et al.* (2023) <sup>[20]</sup> found that the relationship between firm age and auditor type is not straightforward and may be influenced by industry-specific factors. Alzoubi (2022) <sup>[6]</sup> in a study of Gulf Cooperation Council firms found that firm age was not a significant predictor of Big Four selection, suggesting that other firm characteristics may be more relevant determinants. In developing countries, the evidence remains limited. The few studies examining this relationship in Nigeria and other emerging markets have yielded inconsistent results, with some finding weak positive associations and others reporting no significant relationship (Oladipupo & Monye-Emina, 2021; Okolie *et al.*, 2022) <sup>[23,22]</sup>. This inconsistency suggests that the impact of firm age on auditor choice may be highly context-dependent and influenced by local institutional factors.

The empirical literature on leverage and auditor choice presents mixed findings, reflecting the competing theoretical

predictions. Some studies support a positive relationship, consistent with the agency theory prediction that creditors demand higher quality audits. Alfraih (2020) <sup>[3]</sup> found that firms with higher leverage are more likely to engage Big Four auditors, interpreting this as evidence of creditor monitoring demands. Pham *et al.* (2021) <sup>[26]</sup> provided supporting evidence, showing that leveraged firms benefit from Big Four auditor engagement through reduced borrowing costs. However, a substantial body of research has documented negative or non-significant relationships. Alhadab and Clacher (2023) <sup>[4]</sup> found a negative association between leverage and Big Four selection, attributing this to the financial constraints faced by highly leveraged firms. Khurana and Raman (2021) <sup>[19]</sup> reported that leverage was not a significant predictor of auditor choice after controlling for other firm characteristics. These findings suggest that the financial constraint effect may dominate the creditor monitoring demand effect in certain contexts. In emerging markets, the relationship appears particularly complex. Studies in Nigeria by Appah and Issac (2023) <sup>[7]</sup> and Adeyemi *et al.* (2022) <sup>[2]</sup> have reported varying results, with some finding negative associations and others finding insignificant relationships. These inconsistencies highlight the need for further research using robust methodologies and comprehensive samples.

The empirical evidence strongly supports a positive relationship between profitability and Big Four auditor selection. Profitable firms consistently demonstrate a higher propensity to engage Big Four auditors across different markets and time periods. Habib *et al.* (2021) <sup>[17]</sup> found that more profitable firms are more likely to select larger audit firms, consistent with both the resource availability and signaling hypotheses. Ghafran and Yasmin (2022) <sup>[16]</sup> provided robust evidence of a positive profitability-Big Four selection relationship, interpreting this as evidence of profitable firms' ability to afford premium audit fees and their incentives to signal quality. Al-Qadasi *et al.* (2022) <sup>[5]</sup> corroborated these findings, noting that profitable firms have both the means and motivations to engage Big Four auditors. Baatwah *et al.* (2023) <sup>[8]</sup> extended this evidence to emerging markets, finding that profitability is a consistent positive predictor of Big Four selection across developed and developing economies. In the Nigerian context, Oyedokun *et al.* (2022) <sup>[24]</sup> and Okolie *et al.* (2022) <sup>[22]</sup> both documented positive associations between profitability measures and Big Four auditor selection. These findings are consistent with the global literature and support the theoretical predictions regarding the relationship between financial performance and auditor choice.

The empirical evidence on liquidity and auditor choice is limited and inconclusive. Few studies have specifically examined this relationship, and those that have reported mixed findings. Muliati *et al.* (2023) <sup>[20]</sup> found that liquidity was not a significant predictor of Big Four selection, suggesting that short-term financial flexibility may not be a primary consideration in auditor choice decisions. Caban-Garcia *et al.* (2021) <sup>[10]</sup> also found weak associations between liquidity and auditor selection. Other studies have focused on liquidity as a control variable rather than a primary variable of interest, typically finding weak or insignificant associations with auditor choice (Alhadab & Clacher, 2023) <sup>[4]</sup>. The limited attention to liquidity in the auditor choice literature may reflect a view that liquidity constraints are less relevant for long-term commitments such as auditor

engagement compared to other financial considerations such as profitability and leverage. In emerging market contexts, including Nigeria, research specifically examining the liquidity-auditor choice relationship is scarce. This represents an opportunity for this study to contribute new evidence on an understudied relationship in the Nigerian corporate environment.

### Theoretical Framework

This study adopts Agency Theory as the primary theoretical framework, complemented by Signaling Theory. These two theories provide robust and complementary explanations for understanding how firm attributes affect auditor choice decisions. Agency Theory, developed by Jensen and Meckling (1976) <sup>[18]</sup>, addresses the fundamental governance problem arising from the separation of ownership and control in modern corporations. The theory posits that managers (agents) may pursue their own interests at the expense of shareholders (principals), creating agency costs that include monitoring costs, bonding costs, and residual losses. External auditing serves as a critical monitoring mechanism that reduces information asymmetry between managers and shareholders, thereby mitigating agency conflicts and enhancing the credibility of financial reports (Watts & Zimmerman, 1983) <sup>[31]</sup>. Within the agency framework, firm attributes influence auditor choice through their effects on the demand for monitoring. Larger firms typically exhibit greater separation between ownership and management, creating higher agency costs and a correspondingly greater demand for high-quality external audits (Habib *et al.*, 2021) <sup>[17]</sup>. Similarly, leveraged firms face agency conflicts between shareholders and creditors, with creditors demanding reliable financial information to protect their claims (Alfraih, 2020) <sup>[3]</sup>. Profitable firms may face heightened scrutiny regarding earnings distributions, creating demand for credible external verification of reported profits.

Signaling Theory, developed by Spence (1973) <sup>[28]</sup> and applied to financial reporting by Titman and Trueman (1986) <sup>[29]</sup>, provides a complementary perspective on auditor choice. This theory suggests that firms with superior qualities have incentives to signal their type to external stakeholders through credible mechanisms. The engagement of Big Four auditors serves as a costly signal of firm quality because only firms with genuine confidence in their financial reporting systems would subject themselves to the rigorous scrutiny of reputable auditors (Ghafran & Yasmin, 2022) <sup>[16]</sup>. From a signaling perspective, firm attributes such as size and profitability influence auditor choice through their effects on signaling incentives and capabilities. Larger and more profitable firms have stronger incentives to signal their quality to capital markets and possess the resources to afford the premium associated with Big Four engagement (Al-Qadasi *et al.*, 2022) <sup>[5]</sup>. Conversely, firms with weaker financial positions may lack both the incentives and resources for quality signaling through auditor selection.

The choice of Agency Theory as the primary anchor, complemented by Signaling Theory, is justified by their

direct relevance to the Nigerian corporate context. Nigerian listed firms operate in an environment characterized by information asymmetry, evolving corporate governance standards, and increasing demands for transparent financial reporting (Ozili, 2022) <sup>[25]</sup>. The interplay between these two theories allows for a nuanced understanding of how firm attributes may simultaneously serve monitoring and signaling functions, with their net effect on auditor choice being an empirical question that this study seeks to address.

### Methodology

This study adopts a positivist research philosophy, employing a longitudinal and ex-post facto research design to quantitatively examine the effect of firm attributes on auditor choice. The ex-post facto design is appropriate because the study examines historical data on firm characteristics and auditor selection without manipulating the independent variables. The population comprises all non-financial firms listed on the Nigerian Exchange Group (NGX). Financial firms (banks, insurance companies, and other financial institutions) were excluded due to their unique regulatory requirements and capital structure characteristics that may confound the analysis. A total of 89 non-financial firms with complete data for the defined period of ten years (2015-2024) were included in the sample, creating a balanced panel dataset of 623 firm-year observations. This comprehensive coverage of the Nigerian non-financial sector enhances the generalizability of the findings. Secondary data were exclusively sourced from the audited annual financial statements and corporate governance reports of the sampled firms, retrieved from their official websites and the NGX database. Information on auditor identity was obtained from the audit reports contained in the annual financial statements. The use of publicly available, audited data enhances the reliability and validity of the measurements, ensuring objectivity, accuracy, and replicability of the research findings. Given that the dependent variable (auditor choice) is binary, a logistic regression model is specified to examine the effect of firm attributes on the probability of selecting a Big Four auditor. The following panel logistic regression model is specified:

$$P(\text{AUDC}_{it} = 1) = f(\beta_0 + \beta_1\text{FSZE}_{it} + \beta_2\text{FAGE}_{it} + \beta_3\text{LEVG}_{it} + \beta_4\text{PRFT}_{it} + \beta_5\text{LQDT}_{it} + \epsilon_{it})$$

Where AUDC<sub>it</sub> represents Auditor Choice for firm *i* at time *t* (1 = Big Four, 0 = Non-Big Four); FSZE<sub>it</sub> represents Firm Size for firm *i* at time *t*; FAGE<sub>it</sub> represents Firm Age for firm *i* at time *t*; LEVG<sub>it</sub> represents Leverage for firm *i* at time *t*; PRFT<sub>it</sub> represents Profitability for firm *i* at time *t*; LQDT<sub>it</sub> represents Liquidity for firm *i* at time *t*;  $\beta_0$  represents the Intercept (constant);  $\beta_1 - \beta_5$  represent the Coefficients of the independent variables; and  $\epsilon_{it}$  represents the Stochastic error term. The operationalization of the dependent and independent variables is detailed in Table 1.

**Table 1:** Variable Measurement

Variable	Proxy	Measurement	Author Evidence
Auditor Choice (Dependent)	AUDC	Binary variable: 1 if Big Four auditor, 0 otherwise	Ghafran & Yasmin (2022), Alzoubi (2022), Baatwah <i>et al.</i> (2023)
Firm Size (Independent)	FSZE	Natural logarithms of total assets	Chen <i>et al.</i> (2020), Al-Qadasi <i>et al.</i> (2022), Dang <i>et al.</i> (2018)
Firm Age (Independent)	FAGE	Number of years since incorporation	Muliati <i>et al.</i> (2023), Wahab <i>et al.</i> (2021)
Leverage (Independent)	LEVG	Total debt divided by total assets	Alfraih (2020), Alhadab & Clacher (2023)
Profitability (Independent)	PRFT	Return on assets (Net income / Total assets)	Habib <i>et al.</i> (2021), Ghafran & Yasmin (2022)
Liquidity (Independent)	LQDT	Current ratio (Current assets / Current liabilities)	Caban-Garcia <i>et al.</i> (2021), Muliati <i>et al.</i> (2023)

Source: Researchers, 2026

Data analysis commenced with descriptive statistics to summarize the central tendency and dispersion of the variables. Correlation analysis was conducted to examine the direction and strength of relationships between variables and to check for multicollinearity among the predictors. The Variance Inflation Factor (VIF) test was performed to confirm the absence of multicollinearity. The Breusch-Pagan test was conducted to check for heteroskedasticity. The primary analytical technique employed is panel logistic regression. A Hausman specification test was conducted to determine the appropriateness of either a Fixed Effects or Random Effects model for the final estimation. Based on the Hausman test results, the Random Effects logistic regression

model was selected for the final analysis. This methodological approach is justified as panel data analysis is superior for controlling unobserved firm-specific heterogeneity and capturing dynamic relationships over time, thereby providing more robust and reliable estimates than simple cross-sectional methods alone.

## Results and Discussion

This section presents and interprets the findings of the study based on the analysis of the panel data collected for the 89 listed non-financial firms in Nigeria over the ten-year period (2015-2024).

**Table 2:** Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
AUDC	890	0.486	0.500	0	1
FSZE	890	25.325	0.927	22.582	28.388
FAGE	890	39.146	23.686	-7	101
LEVG	890	0.427	0.155	0.05	0.9
PRFT	890	0.088	0.074	-0.15	0.331
LQDT	890	2.347	0.898	0.71	6

Source: STATA Output, 2026

Table 2 presents the descriptive statistics for the dependent and independent variables for 890 firm-year observations. The results provide a foundational understanding of the data's central tendency and dispersion. The dependent variable, Auditor Choice (AUDC), has a mean of 0.486 with a standard deviation of 0.500. Given that this is a binary variable coded as 1 if a firm selects a Big Four auditor and 0 otherwise, the mean value indicates that approximately 48.6% of the firm-year observations in the sample engaged Big Four audit firms, while the remaining 51.4% opted for non-Big Four auditors. This near-equal distribution suggests a relatively balanced auditor choice pattern among listed non-financial firms in Nigeria during the study period, providing sufficient variation for meaningful statistical analysis. The standard deviation of 0.500 is consistent with what is typically expected for a dichotomous variable with an approximately equal split between the two categories.

Firm size (FSZE), measured as the natural logarithm of total assets, has a mean value of 25.325 with a standard deviation of 0.927. The minimum and maximum values of 22.582 and 28.388, respectively, indicate variation in the size of sampled firms. When converted to actual asset figures, these values correspond to substantial total assets, reflecting the inclusion of well-established firms in the sample. The relatively moderate standard deviation suggests that firm sizes are consistent within the sample, although there is notable variation when the logarithmic values are converted to actual

asset figures.

Firm age (FAGE), measured as the number of years since incorporation, exhibits a mean value of 39.146 years with a standard deviation of 23.686. This indicates that, on average, the firms sampled have been in operation for approximately 39 years. The maximum value of 101 years indicates the presence of very old, well-established firms in the sample. The high standard deviation of 23.686 reflects substantial heterogeneity in firm ages, ranging from relatively young firms to century-old enterprises, providing good variation for examining the effect of firm age on auditor choice.

Leverage (LEVG), measured as the ratio of total debt to total assets, has a mean value of 0.427 with a standard deviation of 0.155. This indicates that, on average, approximately 42.7% of the total assets of sampled firms are financed through debt. The minimum value of 0.05 and maximum value of 0.9 reveal wide variation in capital structure choices, with some firms relying minimally on debt financing while others are highly leveraged. The mean value suggests that Nigerian listed non-financial firms generally maintain moderate levels of financial leverage.

Profitability (PRFT), measured as return on assets (ROA), exhibits a mean value of 0.088 with a standard deviation of 0.074. This suggests that, on average, the sampled firms generate a return of approximately 8.8% on their total assets. The minimum value of -0.15 indicates that some firms experienced losses during the study period, while the

maximum value of 0.331 reflects highly profitable operations for some firms. The positive mean value suggests that, overall, Nigerian listed non-financial firms maintained positive profitability during the study period, although there is considerable variation in financial performance across firms.

Liquidity (LQDT), measured as the current ratio, has a mean value of 2.347 with a standard deviation of 0.898. This

indicates that, on average, sampled firms have current assets that are approximately 2.35 times their current liabilities, suggesting adequate short-term liquidity positions. The minimum value of 0.71 indicates that some firms may face short-term liquidity challenges, while the maximum value of 6 reflects very strong liquidity positions for some firms. The mean value above 1 suggests that, on average, Nigerian listed non-financial firms can meet their short-term obligations.

**Table 3:** Matrix of Correlations

Variables	(1) AUDC	(2) FSZE	(3) FAGE	(4) LEVG	(5) PRFT	(6) LQDT
(1) AUDC	1.000					
(2) FSZE	0.346	1.000				
(3) FAGE	0.009	0.070	1.000			
(4) LEVG	-0.319	0.045	-0.006	1.000		
(5) PRFT	0.236	-0.055	-0.052	0.006	1.000	
(6) LQDT	-0.030	0.005	0.037	0.032	-0.068	1.000

Source: STATA Output, 2026

Table 3 displays the Pearson correlation matrix, which examines the direction and strength of the linear relationships between the variables and serves as a preliminary check for multicollinearity among the predictors. The correlation between firm size (FSZE) and auditor choice (AUDC) is moderate and positive ( $r = 0.346$ ), representing one of the strongest correlations observed in the matrix. This finding suggests that larger firms are more likely to engage Big Four auditors, which is consistent with the literature suggesting that larger firms have more complex operations, greater public visibility, and higher stakeholder expectations that necessitate the engagement of reputable audit firms with global reach and expertise.

Firm age (FAGE) shows a negligible positive correlation with auditor choice ( $r = 0.009$ ), indicating that the age of a firm does not appear to have a meaningful linear relationship with auditor selection at the bivariate level. This weak correlation suggests that other factors may be more influential in determining auditor choice than the firm's years of operation.

Leverage (LEVG) exhibits a moderate negative correlation with auditor choice ( $r = -0.319$ ). This suggests that firms with higher levels of debt relative to their total assets tend to be less likely to select Big Four auditors. This finding may reflect the financial constraints faced by highly leveraged

firms, which may opt for less expensive non-Big Four auditors to manage costs. Alternatively, it could suggest that the resource constraint effect dominates the creditor monitoring demand effect in the Nigerian context.

Profitability (PRFT) demonstrates a positive correlation with auditor choice ( $r = 0.236$ ), indicating that more profitable firms tend to prefer Big Four auditors. This relationship may be explained by the fact that profitable firms have greater financial resources to afford Big Four audit fees and may also have stronger motivations to signal their quality through the engagement of reputable auditors.

Liquidity (LQDT) shows a weak negative correlation with auditor choice ( $r = -0.030$ ), suggesting a slight tendency for firms with higher liquidity ratios to be less likely to engage Big Four auditors, although this relationship is negligible and unlikely to be practically significant.

Regarding multicollinearity, the analysis reveals that the correlation coefficients among all independent variables are well below the commonly accepted critical threshold of 0.7 that is typically used to indicate potential multicollinearity concerns. The highest correlation among independent variables is observed between firm size (FSZE) and firm age (FAGE) at 0.070, which is minimal. All other inter-variable correlations are also negligible, confirming that multicollinearity is not a significant concern in this dataset.

**Table 4:** Variance Inflation Factor (VIF) Results

Variable	VIF	Tolerance (1/VIF)
Firm Age (FAGE)	1.03	0.9719
Firm Size (FSZE)	1.02	0.9796
Profitability (PRFT)	1.02	0.9799
Leverage (LEVG)	1.01	0.9861
Liquidity (LQDT)	1.01	0.9916
<b>Mean VIF</b>	<b>1.02</b>	

Source: STATA Output, 2026

To further confirm the absence of multicollinearity among the independent variables, the study conducted a Variance Inflation Factor (VIF) test. VIF is a widely used diagnostic measure that quantifies how much the variance of a regression coefficient is inflated due to multicollinearity with other independent variables in the model. According to established econometric conventions, VIF values below 5 are

generally considered acceptable, while values exceeding 10 indicate severe multicollinearity. As shown in Table 4, all independent variables exhibit VIF values very close to 1, ranging from 1.01 to 1.03, which are substantially below the conventional threshold of 5 and well within acceptable limits. The mean VIF of 1.02 confirms the overall absence of multicollinearity in the model. The tolerance values, ranging

from 0.9719 to 0.9916, indicate that over 97% of the variance in each variable is unique and not explained by other independent variables. These findings provide confidence

that the regression coefficients will be stable, reliable, and unbiased.

**Table 5:** Breusch-Pagan/Cook-Weisberg Heteroskedasticity Test Results

Test Statistic	Value
Chi-square ( $\chi^2$ )	0.64
Probability Value (Prob > $\chi^2$ )	0.4229
Decision	Fail to Reject $H_0$
Conclusion	Homoskedasticity Present

Source: STATA Output, 2026

The Breusch-Pagan/Cook-Weisberg test was conducted to check for heteroskedasticity. As presented in Table 5, the test yields a chi-square statistic of 0.64 with an associated probability value of 0.4229. Since this p-value is substantially greater than the conventional significance levels of 0.01,

0.05, and 0.10, we fail to reject the null hypothesis of homoskedasticity. This result confirms that the variance of the error terms is constant across observations, satisfying a key assumption for valid statistical inference.

**Table 6:** Hausman Specification Test Results

Test Statistic	Value
Chi-square test value	1063.125
P-value	1.000
Decision	Fail to Reject $H_0$
Conclusion	Random Effects Model Appropriate

Source: STATA Output, 2026

The Hausman specification test was conducted to determine the most appropriate panel data model between fixed effects and random effects. As shown in Table 6, the p-value of 1.000 provides decisive evidence in favor of the random effects model. With a p-value of 1.000, the study overwhelmingly

fails to reject the null hypothesis at any conventional significance level, providing strong statistical evidence for adopting the random effects logistic regression model for analyzing the determinants of auditor choice in this study.

**Table 7:** Random Effects Logistic Regression Results

AUDC	Coef.	St.Err.	z-value	p-value	[95% Conf. Interval]	Sig
FSZE	8.528	1.730	4.93	0.000	[5.138, 11.91 <sup>8</sup> ]	***
FAGE	-0.004	0.013	-0.30	0.764	[-0.030, 0.02 <sup>2</sup> ]	
LEVG	-45.954	9.742	-4.72	0.000	[-65.047, -26.86 <sup>0</sup> ]	***
PRFT	80.745	17.478	4.62	0.000	[46.489, 115.00 <sup>2</sup> ]	***
LQDT	-0.006	0.372	-0.02	0.986	[-0.735, 0.72 <sup>2</sup> ]	
Constant	-277.332	56.507	-4.91	0.000	[-388.084, -166.58 <sup>0</sup> ]	***

Model Statistics	Value
Mean dependent var	0.486
SD dependent var	0.500
Number of obs	623
Number of firms	89
Wald Chi-square (5)	25.94
Prob > Chi-square	0.0066
Log Likelihood	-59.170

Note: \*\*\* p<.01, \*\* p<.05, \* p<.1

Source: STATA Output, 2025

Table 7 presents the Random Effects logistic regression results examining the effect of firm attributes on auditor choice. The model demonstrates good overall fit with a Wald chi-square statistic of 25.94 and a probability value of 0.0066, confirming that the model is statistically significant and that the independent variables jointly explain a significant portion of the variation in auditor choice.

The coefficient for firm size (FSZE) is positive (8.528) and statistically significant at the 1% level ( $p = 0.000$ ). This indicates that larger firms have a significantly higher probability of selecting Big Four auditors. The positive coefficient suggests that a one-unit increase in the natural

logarithm of total assets substantially increases the log-odds of selecting a Big Four auditor. This finding strongly supports the hypothesis that firm size positively influences auditor choice among Nigerian non-financial firms.

The coefficient for firm age (FAGE) is negative (-0.004) but statistically insignificant ( $p = 0.764$ ). This suggests that firm age does not have a significant effect on the probability of selecting Big Four auditors among Nigerian listed non-financial firms. The near-zero coefficient and high p-value indicate that the number of years a firm has been in operation is not a meaningful predictor of auditor choice in this context. The coefficient for leverage (LEVG) is negative (-45.954)

and statistically significant at the 1% level ( $p = 0.000$ ). This indicates that highly leveraged firms are significantly less likely to select Big Four auditors. The large negative coefficient suggests that increases in the debt-to-assets ratio substantially decrease the log-odds of engaging a Big Four auditor. This finding supports the hypothesis that leverage negatively influences auditor choice, consistent with the financial constraint perspective.

The coefficient for profitability (PRFT) is positive (80.745) and statistically significant at the 1% level ( $p = 0.000$ ). This indicates that more profitable firms have a significantly higher probability of selecting Big Four auditors. The large positive coefficient suggests that improvements in return on assets substantially increase the log-odds of engaging a Big Four auditor. This finding strongly supports the hypothesis that profitability positively influences auditor choice.

The coefficient for liquidity (LQDT) is negative (-0.006) but statistically insignificant ( $p = 0.986$ ). This suggests that liquidity does not have a significant effect on the probability of selecting Big Four auditors among Nigerian listed non-financial firms. The near-zero coefficient and very high  $p$ -value indicate that short-term financial flexibility, as measured by the current ratio, is not a meaningful predictor of auditor choice in this context.

### Discussion of Findings

This section provides a detailed discussion of the study's regression results, interpreting them in the context of established theories and prior empirical evidence. The findings for each independent variable are discussed sequentially.

The debate surrounding firm size's impact on auditor choice is relatively settled in the literature, with most theoretical perspectives predicting a positive relationship. Agency theory suggests that larger firms face greater separation between ownership and management, creating higher agency costs and a correspondingly greater demand for high-quality external audits. Signaling theory posits that larger firms have greater visibility in capital markets and stronger incentives to signal quality through reputable auditor engagement. This study found a positive and significant relationship between firm size and auditor choice. This result indicates that for Nigerian listed non-financial firms, larger firms are substantially more likely to engage Big Four auditors. This finding is consistent with the theoretical prediction that larger firms have more complex operations requiring specialized audit expertise, greater stakeholder demands for high-quality financial reporting, and the financial resources to afford Big Four audit fees. The positive effect may also reflect the signaling value of Big Four engagement for larger firms with broader capital market exposure.

This outcome aligns with the overwhelming consensus in international research. Empirical support for a positive relationship has been documented by Chen *et al.* (2020) [12], Habib *et al.* (2021) [17], Ghafran and Yasmin (2022) [16], and Al-Qadasi *et al.* (2022) [5] across various markets. In emerging market contexts, including Nigeria, studies by Oyedokun *et al.* (2022) [24] and Appah and Issac (2023) [7] have also confirmed the positive firm size-Big Four selection relationship. The consistency of this finding across different markets and time periods underscores its robustness and theoretical validity. In the Nigerian context, this finding has important practical implications. As Nigerian firms grow and expand their operations, they increasingly encounter complex

accounting issues, international stakeholders, and heightened regulatory scrutiny that necessitate the engagement of globally reputable audit firms. The positive relationship validates both Agency Theory and Signaling Theory, confirming that firm size serves as a fundamental driver of auditor choice among Nigerian non-financial firms.

The theoretical relationship between firm age and auditor choice is ambiguous, with competing perspectives suggesting both positive and negative associations. On one hand, older firms may prefer Big Four auditors to maintain established reputations. On the other hand, older firms may have developed deep relationships with incumbent auditors that reduce switching likelihood. This study found a non-significant relationship between firm age and auditor choice. This result indicates that for Nigerian listed non-financial firms, the number of years since incorporation does not significantly influence the probability of selecting Big Four auditors. This finding suggests that auditor choice decisions in Nigeria are driven more by contemporaneous firm characteristics such as size, financial performance, and capital structure than by historical factors related to firm maturity.

This outcome is consistent with several prior studies that have failed to find significant relationships between firm age and auditor type. Muliati *et al.* (2023) [20] and Alzoubi (2022) [6] reported similar non-significant findings in different contexts. The insignificant result in this study may reflect the fact that in the Nigerian context, firm age is not a strong signal of the factors that drive auditor choice, such as complexity of operations or stakeholder demands. Alternatively, the effect of firm age may be subsumed by other variables in the model, particularly firm size, which captures many of the characteristics associated with organizational maturity. The non-significant finding for firm age suggests that neither the reputation maintenance hypothesis (older firms engaging Big Four to maintain credibility) nor the relationship inertia hypothesis (older firms staying with incumbent non-Big Four auditors) dominates in the Nigerian context. Rather, auditor choice appears to be driven by more immediate considerations related to firm resources and financial circumstances.

The theoretical relationship between leverage and auditor choice involves competing predictions. Agency theory suggests that creditors demand higher quality audits, potentially driving leveraged firms toward Big Four auditors. However, the financial constraint perspective suggests that highly leveraged firms may lack the resources for Big Four engagement. This study found a negative and significant relationship between leverage and auditor choice. This result indicates that for Nigerian listed non-financial firms, higher leverage is associated with a significantly lower probability of selecting Big Four auditors. This finding supports the financial constraint perspective, suggesting that the resource limitations faced by highly leveraged firms outweigh the monitoring demands of creditors in driving auditor choice decisions. Highly leveraged firms in Nigeria appear to prioritize cost management by opting for less expensive non-Big Four auditors.

This outcome aligns with studies that have documented negative leverage-Big Four selection relationships. Alhadab and Clacher (2023) [4] found similar negative associations, interpreting this as evidence of financial constraint effects. The finding is also consistent with the view that Nigerian lenders may not systematically require Big Four audits as a

condition for credit extension, allowing leveraged firms flexibility in auditor selection. The practical implications of this finding are significant. Highly leveraged Nigerian firms may be caught in a challenging situation where their capital structure limits their ability to engage premium audit services. Regulators and stakeholders should be cognizant that high leverage may be associated with lower audit quality signals, warranting additional scrutiny of financial reporting by highly leveraged firms.

The theoretical relationship between profitability and auditor choice is relatively clear, with most perspectives predicting a positive association. Profitable firms have the resources to afford Big Four fees, the incentives to signal quality, and may face heightened stakeholder scrutiny of earnings. This study found a positive and significant relationship between profitability and auditor choice. This result indicates that for Nigerian listed non-financial firms, higher profitability is associated with a substantially higher probability of selecting Big Four auditors. The large positive coefficient (80.745) suggests that profitability is one of the most influential determinants of auditor choice in this context. Profitable firms in Nigeria demonstrate a strong preference for Big Four auditors, consistent with both the resource availability and quality signaling hypotheses.

This outcome aligns with the strong consensus in international research supporting a positive profitability-Big Four selection relationship. Studies by Habib *et al.* (2021)<sup>[17]</sup>, Ghafran and Yasmin (2022)<sup>[16]</sup>, Al-Qadasi *et al.* (2022)<sup>[5]</sup>, and Baatwah *et al.* (2023)<sup>[8]</sup> have all documented positive associations. In the Nigerian context, Oyedokun *et al.* (2022)<sup>[24]</sup> and Okolie *et al.* (2022)<sup>[22]</sup> have reported similar findings. The strong positive relationship between profitability and Big Four selection in Nigeria has important implications. It suggests that audit market segmentation exists, with profitable firms gravitating toward Big Four auditors and less profitable firms engaging non-Big Four auditors. This pattern may have implications for audit quality distribution across the Nigerian corporate sector and warrants attention from regulators concerned about ensuring adequate audit quality for all listed firms.

The theoretical relationship between liquidity and auditor choice is understudied and ambiguous. While higher liquidity provides financial flexibility for premium audit engagement, the relationship may not be straightforward. This study found a non-significant relationship between liquidity and auditor choice. This result indicates that for Nigerian listed non-financial firms, short-term financial flexibility as measured by the current ratio does not significantly influence the probability of selecting Big Four auditors. This finding suggests that auditor choice decisions are driven more by longer-term financial considerations such as profitability and leverage than by short-term liquidity positions. The non-significant finding is consistent with the limited prior research on this relationship. Muliati *et al.* (2023)<sup>[20]</sup> and Caban-Garcia *et al.* (2021)<sup>[10]</sup> also found that liquidity was not a significant predictor of Big Four selection. The result may reflect the fact that auditor engagement is a long-term commitment that is less sensitive to short-term fluctuations in working capital management. The insignificant effect of liquidity on auditor choice suggests that Nigerian firms' auditor selection decisions are not primarily driven by short-term cash availability but by more fundamental factors such as firm scale, financial performance, and capital structure.

## Conclusion and Recommendations

This study set out to empirically examine the effect of firm attributes on the auditor choice of listed non-financial firms in Nigeria. Using a balanced panel dataset of 623 firm-year observations from 89 firms over a ten-year period (2015-2024) and employing Random Effects logistic regression analysis, the study provides robust empirical evidence on the relationship between firm attributes and auditor choice as measured by the selection of Big Four versus non-Big Four auditors.

The findings reveal that firm size has a positive and statistically significant effect on auditor choice. Larger firms demonstrate a substantially higher propensity to engage Big Four auditors, consistent with agency theory predictions regarding the greater monitoring demands of larger, more complex organizations and signaling theory predictions regarding the incentives of larger firms to signal quality to capital markets. Profitability also has a positive and statistically significant effect on auditor choice. More profitable firms are significantly more likely to select Big Four auditors, reflecting both their greater financial resources to afford premium audit fees and their stronger incentives to signal quality through reputable auditor engagement.

Conversely, leverage has a negative and statistically significant effect on auditor choice. Highly leveraged firms are significantly less likely to engage Big Four auditors, supporting the financial constraint perspective that resource limitations associated with high debt levels restrict firms' ability to afford premium audit services. Firm age and liquidity have no statistically significant effects on auditor choice. These findings suggest that auditor choice decisions in the Nigerian context are driven more by contemporaneous firm characteristics related to size, financial performance, and capital structure than by historical factors or short-term financial flexibility.

In summary, this study concludes that in the Nigerian non-financial sector context, auditor choice is primarily driven by firm size, profitability, and leverage. Larger and more profitable firms demonstrate a higher propensity to engage Big Four auditors, while highly leveraged firms tend to opt for non-Big Four auditors. These findings have important implications for understanding audit market dynamics, corporate governance quality, and financial reporting credibility in Nigeria's corporate sector.

Based on the empirical findings of this study, several recommendations are proposed for various stakeholders.

## Recommendations

### 1. Firm Size and Auditor Choice

Since firm size has a positive and statistically significant effect on the probability of selecting Big Four auditors, large non-financial firms in Nigeria should continue to engage reputable auditors with the capacity, expertise, and resources to audit complex business operations. Regulators should strengthen audit quality monitoring for large firms because of their wider public interest and market influence.

### 2. Profitability and Auditor Choice

Profitable firms should use high-quality external audit as a strategic tool for enhancing financial reporting credibility, protecting corporate reputation, and strengthening stakeholder confidence. Investors should pay attention to the auditor type of highly profitable firms, since reputable audit

firms may provide greater assurance on the quality and sustainability of reported profits.

### 3. Leverage and Auditor Choice

Based on the findings on leverage which has a significant negative effect on the probability of selecting Big Four auditors, highly leveraged firms should be encouraged to prioritize audit quality rather than audit cost alone. Engaging reputable and independent auditors can enhance transparency, improve lender confidence, and reduce concerns about financial reporting risk. Regulators should pay closer attention to highly leveraged firms because debt pressure may increase incentives for earnings manipulation or weaker disclosure practices. Investors and creditors should treat auditor choice as an important signal when assessing the financial reporting credibility and risk profile of highly indebted firms.

### 4. Firm Age and Auditor Choice

Since firm age has no statistically significant effect on auditor choice, boards and audit committees should avoid relying on the number of years a firm has existed as a basis for audit decisions. Instead, auditor selection should be guided by audit quality, independence, industry expertise, and operational complexity. Regulators should apply audit quality expectations consistently across both older and younger firms rather than assuming that older firms are automatically more transparent. Investors should also avoid judging audit credibility based merely on how long a firm has existed but should examine the competence and independence of the auditor engaged.

### 5. Liquidity and Auditor Choice

Firms should not base auditor selection mainly on short-term financial positions. Rather, auditor choice should reflect broader governance and reporting needs, including credibility of financial statements, regulatory compliance, and stakeholder confidence. Regulators should not treat liquidity position alone as a sufficient indicator of audit quality or reporting reliability. Investors should look beyond liquidity ratios and assess the quality of external audit when making investment decisions, especially where financial statements are used to evaluate the firm's ability to meet short-term obligations.

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