

## **AUDIT FIRM SIZE, AUDIT TENURE, AND AUDIT FEES AS CORRELATE OF AUDITORS' SWITCHING DECISIONS AMONG LISTED NIGERIAN FIRMS.**

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### **Abstract**

This study examined the influence of audit firm size, audit tenure, and audit fees on auditor switching decisions among Nigeria's listed non-financial firms. Probit regression analysis was employed to test three hypotheses using a panel dataset comprising 912 firm-year observations over a 12-year period. Findings reveal that audit firm size does not significantly affect switching decisions ( $p = 0.694$ ), while audit firms' foreign affiliation has a significant positive effect ( $p = 0.029$ ), suggesting a preference for technically superior or reputable audit firms. Audit tenure emerged as a significant determinant ( $p = 0.000$ ), with longer tenures reducing the likelihood of switching to a different one. However, the regulated audit tenure had no significant effect ( $p = 0.516$ ). Furthermore, audit fee itself was not a significant factor ( $p = 0.888$ ), but audit-related fees were positively associated with switching decisions ( $p = 0.003$ ), implying that higher non-audit services may influence firms' decisions to change auditors. This study confirms the absence of multicollinearity with robust model diagnostics. These results underscore the importance of perceived auditor independence and regulatory compliance in audit engagement decisions. The study recommends that regulators strengthen oversight of audit tenure and non-audit services to enhance transparency and investor confidence in Nigeria's corporate reporting landscape.

### **1.0 Introduction**

Auditor switching, a practice rooted in the history of global accounting since the 1970s, remains a critical issue affecting audit independence and financial reporting credibility, especially in emerging markets like Nigeria. This phenomenon is often driven by both auditor-related factors—such as audit fees, audit opinions, and firm size, and client-related factors, such as company size, management changes, and financial stress. The external audit plays

a vital role in enhancing the reliability of financial statements, which in turn influences investor confidence and firm valuation. However, when audit quality is questioned or auditors issue qualified opinions that management views unfavorably, companies may respond by switching audit firms. This action, while strategic for management, may jeopardize the auditor's independence and financial reports' perceived objectivity. Prior literature suggests that qualified audit reports can lead to a drop in share prices and poorly reflect on management, thereby incentivizing auditor change to avoid unfavorable audit outcomes (Asthana, Khurana & Raman, 2019). In the Nigerian context, the decision to switch auditors is often shaped by factors such as audit firm size, audit tenure, and audit fees. Companies may seek larger or more reputable firms to signal financial credibility or reduce audit-related risks. Conversely, long auditor tenures and high fees may raise concerns about auditor complacency or compromised independence, prompting a switch. This study focuses on understanding how audit-related variables influence auditor switching decisions among Nigerian firms. The broader implication is that frequent auditor changes, driven by management's desire to avoid scrutiny or reduce costs, could undermine audit effectiveness and stakeholder trust. Thus, strengthening governance structures and ensuring auditor independence are essential for enhancing audit quality and maintaining the integrity of financial reporting in Nigeria.

The issue of auditor switching has become increasingly relevant due to the prevalence of audit failures, which have eroded stakeholder confidence in financial reporting, particularly in Nigeria. These failures are often attributed to creative accounting practices and prolonged auditor-client relationships (Bangun & Asri, 2017; Choi, Lim & Mali 2017). Despite its significance, auditor switching in the Nigerian context has not been empirically investigated extensively, with most existing studies focusing on anecdotal evidence or foreign settings.

Stakeholders, such as investors, rely heavily on credible and independent audit reports for informed decision-making (Aslan & Aslenertik, 2017). However, the determinants that influence auditor switching decisions vary, ranging from changes in management and firm size to audit fees and auditor reputation. While some studies suggest that companies with weak corporate governance opt for lower-quality auditors, others emphasize cost reduction and service improvement as key motives behind switching decisions (Asthana, Khurana & Raman, 2019).

Given the mixed findings in prior literature and the limited research in Nigeria, this study aims to examine audit firm size, audit tenure, and audit fees as correlates of auditors' switching decisions among listed non-financial firms on the Nigerian Exchange Group (NGX), thereby addressing a significant gap in the local audit literature. Given the study objectives the following hypotheses stated in the null form have been formulated:

***H<sub>01</sub>: Audit firm size has no significant relationship with auditors' decision to switch among non-financial firms in Nigeria.***

***H<sub>02</sub>: Audit tenure has no significant relationship with auditors' decision to switch among non-financial firms in Nigeria.***

***H<sub>03</sub>: Audit fees have not significantly affected the relationship of auditors switching decisions among Nigerian non-financial firms.***

## **2.0 Literature Review**

### **2.1 Auditor Switching Decisions**

Since the 1970s, the concept of auditor switching has garnered significant academic and professional attention, initially driven by increasing competition among audit firms and later by major corporate scandals such as Enron, which underscored the implications of prolonged auditor-client relationships (Heliodoro, Lopes, Pinho & Ramos 2016). These developments have led to ongoing debates regarding the effectiveness of auditor rotation in promoting auditor independence. Auditor switching refers to the replacement of one external audit firm with another, either through resignation or dismissal. Akrawah, Anichebe, and Okunrobo (2020) describe this as a

formal termination of an audit engagement, often initiated on the recommendation of a company's audit committee. The practice may arise from internal and external pressures, including concerns about audit quality, independence, or cost considerations. Scholars such as Nazri, Smith, and Ismai (2012) caution that while auditor changes may be necessary, they can result in increased costs for the client and lost business for the outgoing auditor.

Auditor switching can be categorized as either mandatory, which results from regulatory requirements for rotation—or voluntary, which may be triggered by various organizational or audit-related factors. These include financial distress, company restructuring, ownership changes, audit fees, tenure, opinion dissatisfaction, and perceived auditor performance (Ohioda & Okun, 2018). The decision to switch auditors is often linked to the perceived independence and competence of the audit firm. Literature suggests that dissatisfaction with an auditor's opinion can lead management to initiate a switch, which may affect investor perceptions, share prices, and executive compensation (Onatoyeh & Nwabuko, 2016; Ohioda & Okun, 2018). Additionally, poor auditor performance or a lack of value-added services may lead to higher turnover, especially where audit quality is critical to maintaining stakeholder trust (Binti, Zaki & Bambang 2016). Auditor switching is a multifaceted decision that can reflect both strategic considerations and regulatory compliance. Its implications for audit quality, firm performance, and investor confidence underscore the need for careful assessment of the circumstances surrounding each switch.

## **2.2 Audit Firm Size**

Audit firm size plays a critical role in auditor switching decisions, especially in developed markets where large firms are preferred for their technological capacity, expertise, and reputational strength. Studies such as those by Kasih and Puspitasari (2017) and Qawqzeh, Endut, Rashid, Johari, Hamid & Rasit (2018) highlight that larger audit firms are more equipped to handle complex audits and command premium fees due to their brand and service quality. Conversely, smaller firms often face limitations in resources and may compromise auditor independence through close client relationships. Research findings are mixed: while some studies (e.g., Eluyela & Ilogho, 2016) find a positive relationship between audit firm size and switching decisions, others (e.g., Aroh, Odum & Odum 2016) report a negative correlation. In Nigeria, Ugwu (2020) found a positive but statistically insignificant relationship. Theoretical perspectives means that firms are more likely to switch to larger, more independent auditors as they grow and encounter greater complexity and agency conflicts to ensure audit quality and mitigate governance risks.

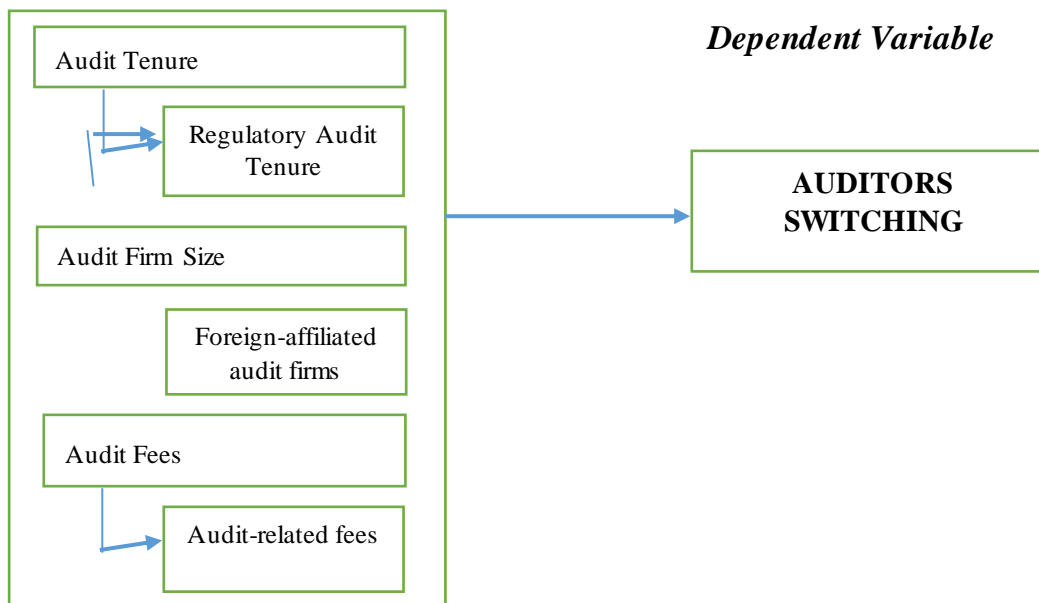
## **2.3 Audit Tenure**

Audit tenure—the duration an audit firm serves a particular client has a significant impact on auditor switching decisions. Research consistently shows a negative relationship between audit tenure and the likelihood of switching auditors, suggesting that longer relationships reduce the chances of change (Dhaliwal et al., 2015; Akrawah, Anichebe & Okunrobo 2020). In Nigeria, legal provisions under CAMA allow both firms and auditors to terminate engagements, often leading to the strategic use of tenure for mutual advantage. While extended auditor tenure may enhance familiarity and reduce transition costs, it can also compromise auditor independence due to complacency, reduced professional skepticism, or emotional ties with management (Bagherpour, Monroe & Shailer, 2017). Over time, auditors may face pressures to accommodate client preferences, which may affect the objectivity and reliability of audit opinions. Therefore, regulatory and professional safeguards are essential to maintaining audit quality and independence over extended tenures despite the cost and disruption associated with switching auditors.

## 2.4 Audit Fee

The compensation paid to external auditors for their services plays a crucial role in influencing auditor switching decisions. Studies show a generally positive relationship between audit fees and auditor change, suggesting that when fees are perceived as excessive or misaligned with service quality, firms may seek alternative auditors (Akrawah, Anichebe & Okunrobo, 2020; Sharma, Tanyi & Litt, 2017). Audit fees reflect both the audit effort and a risk premium and are influenced by factors such as internal control quality, company risk profile, and auditor size or reputation. While higher fees are often justified by audit complexity or the prestige of large firms, they may also raise concerns about auditor independence, especially when tied to non-audit services, creating potential conflicts of interest. Regulatory bodies and stakeholders, including shareholders, audit committees, and professional associations, monitor audit fee arrangements to ensure they align with ethical standards and audit quality. Ultimately, when audit fees become burdensome or raise independence concerns, companies, particularly those with budget constraints or dissatisfaction with service, may opt to switch auditors, underscoring the strategic and financial implications of audit pricing in corporate governance.

## 2.5 Conceptual Model for the Study



**Fig. 1: Conceptual Model of the study design**

**Source: Authors' Design, 2024**

## 2.6 Theoretical Framework

In this study, signaling theory provides the theoretical foundation for understanding auditor switching, positing that companies change auditors to convey positive signals about the credibility and quality of their financial reporting to external stakeholders. Rooted in the information asymmetry between managers (insiders) and shareholders or other external parties (outsiders), the theory suggests that selecting a particular type of auditor, often one with a strong reputation, serves as a strategic move to enhance corporate image, reduce agency conflicts, and reassure investors about the firm's transparency and reliability (Asthana, Khurana & Raman, 2019; Akhor & Akrawah, 2016). Firms intentionally choose auditors perceived to provide higher quality assurance by using auditor choice as a signal to mitigate market skepticism, especially when internal knowledge gaps exist between parties (Menicucci & Paolucci, 2018). This signaling behavior is particularly relevant in contexts of ownership-control separation, where credible financial disclosures are crucial to maintaining investor confidence and aligning stakeholder interests.

## 2.7 Empirical Review

Virginus (2020) examined the determinants of auditor switching among firms listed on the Nigerian Stock Exchange, focusing on audit firm size, audit tenure, and audit fee. Using secondary data from 2015–2019 and applying logit, probit, and extreme value models, the study found that audit tenure had a significant negative effect on auditor switching, whereas audit firm size and audit fee had positive but insignificant effects.

Akrawah, Anichebe, and Okunrobo (2020) used binary regression analysis to explore the determinants of auditor switching among 115 non-financial firms listed on the Nigerian Stock Exchange from 2012 to 2018. The study found that audit tenure had a positive and significant effect on auditor switching, whereas audit fee, client size, audit delay, and profitability had positive or negative but statistically insignificant effects.

Mulyadi, Hakim, Zulaecha, and Rachmania (2020) used logistic regression to examine auditor switching decisions among manufacturing firms in Indonesia using data from nine listed firms between 2011 and 2015. The study found that management change had a positive effect on auditor switching, whereas firm size, going concern opinion, and financial distress had negative effects.

Apochi and Olalekan (2021) used logistic regression to investigate the determinants of auditor switching among 12 Nigerian deposit money banks from 2011 to 2017. The study found a significant negative relationship between audit fees and auditor switching and a significant positive relationship between bank size and switching. While leverage had no direct effect on switching, it was significantly associated with earnings management, although no significant link was found between auditor switching and earnings management.

Amalia and Indupurnahayu (2024) examined the impact of profitability, solvency, auditor switching, and company size on audit delay among 21 manufacturing firms listed on the Indonesia Stock Exchange from 2017 to 2021. Using quantitative descriptive analysis, they found that profitability and solvency significantly reduce audit delay, while auditor switching significantly increases it, and company size has no significant effect. The study highlights that audit delay tends to lengthen after auditor changes as new auditors adjust to the firm's operations.

## 3.0 Methodology

This study employed an *ex-post facto* research design to analyze factors influencing auditor switching decisions using past data. The choice of this design was based on the position of previous studies that the *ex-post facto* design does not permit the manipulation of variables or the likely outcome from the analytical process (see Ukolobi & Jeroh, 2020; Ozegbe & Jeroh, 2022; Akiri & Jeroh, 2022; Izukwe & Jeroh, 2022; Sinebe & Jeroh, 2023; Ogieh & Jeroh, 2023; Atokpe & Jeroh, 2024; Obiora & Jeroh, 2024). As of December 2023, the population comprised all 102 publicly quoted non-financial firms on the Nigerian Exchange Group. Purposive sampling was used to select 76 firms with at least three years of continuous data from 2012 to 2023 (12 years) to ensure data completeness and reliability. Secondary data were sourced from the Nigerian Stock Exchange Fact-book, company annual reports, and websites, focusing on audit firm size, audit tenure, and audit fees as key determinants, all of which were validated within Nigeria's regulatory framework.

This study builds on existing models in order to examine audit firm size, audit tenure, and audit fees as correlated with auditors' switching decisions of quoted firms in Nigeria. In view of this, the following models were estimated:

### Model I

$$AS_{it} = a_0 + a_1AFSIZE_{it} + a_2FAAF_{it} + \mu_t \quad - \quad - \quad - \quad eq.1$$

### Model II

$$AS_{it} = a_0 + a_1ATEN_{it} + a_2RATEN_{it} + \mu_t \quad - \quad - \quad - \quad eq.2$$

### Model III

$$AS_{it} = a_0 + a_2AFEE_{it} + a_2ARF_{it} + \mu_t \quad - \quad - \quad - \quad eq.3$$

**Measurement of the variables**

Variables	Proxy	Variable Code	Measurement	Sources	A-Priori Expectation
<b>INDEPENDENT VARIABLES</b>					
	Audit Firm Size	AFSIZE	Measured based on the size/rank of the audit firm providing audit services (where Big 4 1, others 0)	Appah, Onowu, Audu, and Tonye (2022)	+
	Foreign-affiliated audit firms	FAAF	Dummy variable: 1 if the audit firm is affiliated with an international network, and 0 otherwise.	Hadiza and Yahaya, (2024)	-
	Audit Tenure	ATENURE	Measured as the number of consecutive years the same auditor has audited the firm	Igbru and Orife (2024)	+
	Regulatory Audit Tenure	RATENURE	Dummy variable: 1 if the same auditor has served for more than 10 years, 0 otherwise	Fauzi, Hasan and Oktari, (2020)	-
	Audit Fees	AFEE	Total fees for statutory audit services paid to the external auditor	Arkaputra and Hidayah, (2022)	+
	Audit-related fees	ARF	Fees paid to the auditor for non-audit services	Arshad and Mollah (2022)	-
<b>DEPENDENT VARIABLE</b>					
	Auditors' Switching Decisions	AS	Dummy variable: 1 if the firm changed its external auditor in a given year, 0 otherwise.	Akrawah, Anichebe and Okunrobo, (2020)	+

Source: Researcher's Compilation, 2025

**4.0 Data Analysis and Discussion of Results****4.1 Descriptive Statistics**

The results of the descriptive statistics of the variables are presented in Table 4.1 below:

**Table 4.1: Summary of Descriptive Statistics of Study Variables**

Variable	Obs	Mean	Std. Dev	Min	Max
AS	912	.1217105	.3271306	0	1
AFSIZE	912	.5548246	.4972579	0	1
FAAF	912	.2631579	.440589	0	1
ATEN	912	.7631579	.4253779	0	1
RATEN	912	.5263158	.499581	0	1
AFEE	912	.528759	2.924538	.0089	54.8446
ARF	912	.3719189	.1387412	1	.64

Source: Researcher's Computation, 2025.



Table 4.1 summarizes the descriptive statistics for 912 observations drawn from 76 listed Nigerian non-financial firms over 12 years. The dependent variable, auditor switching decisions (AS), has a mean of 0.122 and a standard deviation of 0.327. The independent variables audit firm size, foreign affiliation, audit tenure, regulatory tenure, audit fee, and audit-related fee show varied distributions, with audit fees ranging from 0.0089 to 54.84. All binary variables (e.g., AFSIZE, FAAF, ATEN and RATEN) ranged between 0 and 1, indicating their categorical nature in the analysis.

#### 4.2 Correlation Analysis

Correlation analysis examines the relationships between different variables to determine the strength and direction of their associations.

**Table 4.2 Results of the correlation analysis**

<i>Variable</i>	<i>AS</i>	<i>AFSIZE</i>	<i>FAAF</i>	<i>ATEN</i>	<i>RATEN</i>	<i>AFEE</i>	<i>ARF</i>
<i>AS</i>	1.0000						
<i>AFSIZE</i>	0.0163	1.0000					
<i>FAAF</i>	0.0746	0.3800	1.0000				
<i>ATEN</i>	-0.6130	0.0199	-0.0068	1.0000			
<i>RATEN</i>	0.0509	0.0737	0.1480	-0.0636	1.0000		
<i>AFEE</i>	0.0102	-0.0888	-0.0563	-0.0419	-0.1069	1.0000	
<i>ARF</i>	0.0984	-0.0116	0.0661	-0.0847	-0.0033	0.0575	1.0000

*Source: Researcher's Computation, 2025.*

Table 4.2 presents the correlation analysis, showing that auditor switching decisions (AS) are positively correlated with all independent variables except audit tenure (ATEN). Correlation coefficients among independent variables range from -0.0033 to 0.3800, well below the multicollinearity threshold of 0.80, indicating no serious multicollinearity concerns. These results were further validated through the diagnostic tests discussed in section 4.1.3.

#### 4.3 Variance Inflation Factor (VIF) Test

**Table 4.3 Results of the Variance Inflation Factor (VIF) Test**

<i>Variable</i>	<i>VIF</i>	<i>1/VIF</i>
<i>FAAF</i>	1.20	0.835894
<i>AFSIZE</i>	1.18	0.849543
<i>RATEN</i>	1.04	0.963542
<i>AFEE</i>	1.02	0.976798
<i>ARF</i>	1.02	0.983910
<i>ATEN</i>	1.01	0.986380
Mean VIF		1.08

*Source: Researcher's Computation, 2025.*

Table 4.3 shows that all Variance Inflation Factor (VIF) values for the independent variables ranged between 1.01 and 1.20, with a mean VIF of 1.08, indicating no multicollinearity concerns and confirming the robustness and suitability of the specified models used in the study.

#### 4.4 The Breusch Pagan Test

**Table 4.4 The Breusch Pagan Test**

Breusch Pagan Cooke and Weisberg Test for Heteroskedasticity	Chi2(1) = 1065.58; Prob> chi2 = 0.0000
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*Source: Researcher's Computation, 2025.*

Table 4.4 reveals a chi-square value of 1065.58 with a p-value of 0.0000, indicating the presence of heteroskedasticity in the dataset; hence, the study employed the probit regression method for hypothesis testing.

#### 4.5 Test of the Hypotheses

##### 4.4.1 Test of Hypotheses I

**Table 4.5: Results of Model I and Hypothesis I Test**

Dependent Variable: Auditors switching decisions (AS)					
Variable	Symbols	Coefficient	Std. Err.	t-stat.	p-value
<i>Audit Firm Size</i>	AFSIZE	-0.0466739	.1185502	-0.39	0.694
<i>Foreign Affiliated Audit Firms</i>	FAAF	0.2776813	.12972727	2.18	0.029
<i>Constant</i>	_cons	-1.22151	0.0825054	-14.81	0.000
<i>Prob &gt; chi2</i>					0.0835
<i>LR chi2 (4)</i>					4.97
<i>Number of Obs.</i>					912

*Source: Researcher's Computation via STATA 13.0*

The probit regression analysis in Table 4.5 reveals that audit firm size has an insignificant effect on auditor switching decisions among listed non-financial firms in Nigeria ( $p = 0.694$ ), whereas foreign affiliation of audit firms shows a significant positive relationship ( $p = 0.029$ ). Given the overall model p-value of 0.0835, the study accepts the null hypothesis, concluding that audit firm size does not significantly influence auditor switching decisions.

##### 4.4.2 Test of Hypotheses II

**Table 4.6: Results of Model II and Hypothesis II Test**

Dependent Variable: Auditors switching decisions (AS)					
Variable	Symbols	Coefficient	Std. Err.	t-stat.	p-value
<i>Audit Tenure</i>	ATEN	-2.274831	.1652869	-13.76	0.000
<i>Regulated Audit Tenure</i>	RATEN	0.0962988	.1481226	0.65	0.516
<i>Constant</i>	_cons	-0.1026404	0.1214954	-0.84	0.389
<i>Prob &gt; chi2</i>					0.0000
<i>LR chi2 (4)</i>					298.42
<i>Number of Obs.</i>					912

*Source: Researcher's Computation via STATA 13.0*

The probit regression analysis in Table 4.6 reveals that audit tenure has a significant effect on auditor switching decisions among listed non-financial firms in Nigeria ( $p = 0.000$ ), whereas regulated audit tenure shows an insignificant positive relationship ( $p = 0.516$ ). Given the overall model p-value of 0.0000, the study rejects the null hypothesis, concluding that audit tenure significantly influences auditor switching decisions.



#### 4.4.3 Test of Hypotheses III

**Table 4.7: Results of Model III and Test of Hypothesis III**

<b>Dependent Variable: Auditors switching decisions (AS)</b>					
<i>Variable</i>	<b>Symbols</b>	<b>Coefficient</b>	<b>Std. Err.</b>	<b>t-stat.</b>	<b>p-value</b>
<i>Audit Fee</i>	AFEE	0.0022987	.0163368	0.14	0.888
<i>Audit Regulated Fee</i>	ARF	1.147498	.3903204	2.94	0.003
<i>Constant</i>	_cons	-1.609309	.1620569	-9.93	0.000
<i>Prob &gt; chi2</i>					0.0122
<i>LR chi2 (4)</i>					8.82
<i>Number of Obs.</i>					912

**Source: Researcher's Computation via STATA 13.0**

The probit regression analysis in Table 4.7 reveals that audit fee has an insignificant effect on auditor switching decisions among listed non-financial firms in Nigeria ( $p = 0.888$ ), whereas audit regulated fee shows a significant positive relationship ( $p = 0.003$ ). Given the overall model p-value of 0.0122, the study rejects the null hypothesis, concluding that audit fees significantly influence auditor switching decisions.

The findings reveal several significant insights into the influence of audit firm size, audit tenure, and audit fees on auditor switching decisions among Nigeria's listed non-financial firms. Descriptive statistics indicate a low average switching rate (12.2%) across the 12-year period, with modest variation in key audit attributes. Correlation results generally means weak associations among variables, with no evidence of multicollinearity confirmed through VIF diagnostics (mean VIF = 1.08). Despite the presence of heteroskedasticity, detected via the Breusch-Pagan test, probit regression results provide robust evidence: audit firm size does not significantly influence switching decisions ( $p = 0.694$ ), whereas foreign affiliation of audit firms does ( $p = 0.029$ ). Furthermore, audit tenure significantly affects switching ( $p = 0.000$ ), whereas regulated audit tenure does not ( $p = 0.516$ ). Finally, audit fee is not a significant factor ( $p = 0.888$ ), but audit-related fees exert a significant positive influence ( $p = 0.003$ ). These findings highlight the nuanced roles of auditor characteristics in shaping switching behavior within the Nigerian context.

#### 5.0 Conclusions and Recommendations

This study examined audit firm size, audit tenure, and audit fees as correlates of auditors' switching decisions among Nigerian listed non-financial firms using a 12-year panel dataset and probit regression analysis. The results reveal that while audit firm size does not significantly influence switching decisions, audit tenure and audit fees have a significant impact. Additionally, audit firms' foreign affiliation positively influences the likelihood of auditor switching. These findings means that firms prioritize perceived independence and regulatory considerations over firm size, particularly those linked to tenure and specialized audit-related services. This study underscores the importance of regulatory oversight and audit firm characteristics in shaping auditor-client relationships in Nigeria's emerging market environment.

Based on the findings of this study, it is recommended that regulatory authorities, such as the Financial Reporting Council of Nigeria (FRCN) and the Nigerian Exchange Group (NGX) strengthen oversight mechanisms around audit tenure and audit-related services to enhance auditor independence and transparency. Firms should be encouraged to periodically assess their audit engagement policies, particularly in relation to the duration of auditor-client relationships and the scope of non-audit services received. Additionally, stakeholders should

consider the benefits of engaging foreign-affiliated audit firms, which may bring enhanced credibility and technical expertise while ensuring that such affiliations do not compromise objectivity. These measures will help promote higher audit quality and greater investor confidence in financial reporting practices.

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