

Audit Firms' Attributes and Tax Avoidance in Nigeria - Fatai Adisa Adedeji

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ABSTRACT

This study investigates the relationship between audit firm attributes and corporate tax avoidance among listed non-financial firms in Nigeria from 2015 to 2023. Grounded in Agency Theory, Political Cost Theory, and Legitimacy Theory, the research examines how audit firm size, tenure, independence, and industry specialization influence firms' tax behaviours. Using panel data analysis and drawing on financial statements from 50 purposively selected firms, the study proxies tax avoidance with the effective tax rate (ETR) and applies fixed effects regression to assess the hypothesized relationships. Findings reveal that audit firm size and industry specialization are significantly and negatively associated with tax avoidance, indicating that reputable and specialized auditors help mitigate aggressive tax planning. Conversely, a significant positive relationship is found between audit independence; measured by the ratio of non-audit to total fees; and tax avoidance, suggesting that economic bonding may compromise auditor objectivity. Audit tenure, while positively related to tax avoidance, does not show statistical significance. The study contributes to the literature on audit quality and tax transparency in emerging markets by providing localized empirical evidence. It recommends stricter oversight of non-audit services, promotion of industry expertise, and reforms to audit rotation policies to enhance audit effectiveness in curbing tax avoidance. These insights offer practical implications for regulators, audit practitioners, and corporate stakeholders seeking to strengthen financial integrity and tax compliance in Nigeria.

Keywords: Audit firm attributes, tax avoidance, audit quality, auditor independence, Big 4, Nigeria, effective tax rate, corporate governance

INTRODUCTION

Tax income is essential for the economic viability of a nation, as it supplies the necessary resources for infrastructure development, public service provision, and macroeconomic stabilization (Federal Inland income Service (FIRS), 2020). In Nigeria, corporate taxation constitutes a significant source of government revenue; yet, there is ongoing apprehension regarding the escalating trend of tax dodging among corporations (Olatunji & Adekoya, 2021). While tax evasion is technically allowed, its aggressive implementation compromises government revenue collection, distorts equitable competition, and raises concerns regarding business ethics and transparency (Slemrod, 2004).

Audit firms are essential in overseeing business financial reporting and ensuring compliance. Auditors, as guardians of financial integrity, are equipped to identify and prevent accounting methods that enable tax avoidance (Francis, 2004). The degree to which audit companies affect corporate tax behavior is contingent upon their particular characteristics, notably their size, client tenure, independence, and industry competence (DeAngelo, 1981; Craswell, Francis, & Taylor, 1995). Large audit firms, such as the Big 4, are presumed to provide superior audit quality owing to their brand reputation, global presence, and access to specialized expertise (Francis, 2004). Conversely, extended audit tenure or reliance on client payments may undermine auditor independence, thereby facilitating tax avoidance strategies (Johnson, Khurana, & Reynolds, 2002).

In Nigeria, research examining the relationship between audit characteristics and tax avoidance is limited, and

foreign findings may not be immediately relevant due to institutional disparities, inadequate enforcement, and variances in audit market dynamics. This study empirically examines the influence of audit firm characteristics on the tax avoidance strategies of publicly listed non-financial companies in Nigeria.

The research is based on three principal theories: Agency Theory, highlighting auditors' role in alleviating conflicts of interest between managers and shareholders (Jensen & Meckling, 1976); Political Cost Theory, proposing that firms pursue tax avoidance to evade regulatory oversight (Watts & Zimmerman, 1986); and Legitimacy Theory, asserting that organizations strive for social acceptance by conforming to norms and employing reputable auditors (Suchman, 1995).

This research contributes to the expanding discourse on audit quality and tax transparency by assessing the impact of particular audit firm characteristics on the tax behavior of Nigerian firms. It seeks to instruct policymakers, tax authorities, and investors on utilizing audit-related criteria to enhance tax compliance.

The study is structured around four key objectives:

1. To examine the effect of audit firm size on tax avoidance in Nigeria.
2. To evaluate the impact of audit tenure on tax avoidance.
3. To investigate the relationship between audit independence and tax avoidance.
4. To determine how audit firm industry specialization influences tax avoidance.

These objectives are pursued through the following hypotheses:

H1: Audit firm size has no significant effect on tax avoidance.

H2: Audit tenure has no significant effect on tax avoidance.

H3: Audit independence has no significant effect on tax avoidance.

H4: Industry specialization has no significant effect on tax avoidance.

By addressing these hypotheses, the study provides empirical insights into how auditors' structural and operational characteristics can either promote or discourage corporate tax avoidance in the Nigerian environment.

Recent studies from 2019 to 2024, such as Olatunji and Adekoya (2021) and Agbatogun and Owolabi (2018), have highlighted the importance of audit quality in mitigating tax avoidance, yet have not fully explored the implications of industry specialization within the Nigerian context. The Finance Acts of 2019–2023 have introduced significant changes to the tax environment in Nigeria, offering new insights into how firms may respond to these regulatory shifts. The inclusion of these regulatory changes in the review strengthens the paper's relevance to current tax and audit practices in Nigeria. Furthermore, studies examining the role of audit tenure have shown mixed results, and this paper contributes by applying a specific focus on Nigeria's distinct institutional realities.

CONCEPTUAL REVIEW

Concept of Tax Avoidance

Tax avoidance is described as the strategic management of financial matters by individuals or organizations to minimize tax obligations legally (Hanlon & Heitzman, 2010). It contrasts with tax evasion, which entails unlawful activities, such as underreporting income or fabricating deductions. Tax avoidance, although lawful, is frequently regarded as ethically dubious due to its exploitation of loopholes in tax law (Prebble & Prebble, 2010).

Scholes and Wolfson (1992) define tax avoidance as any acts that diminish a taxpayer's stated tax obligation and enhance after-tax returns. These tactics may encompass income shifting, utilization of tax havens, thin capitalization, transfer pricing, and hybrid financial instruments. The selection of a tax avoidance technique frequently relies on the firm's industry, tax jurisdiction, and regulatory framework (Desai & Dharmapala, 2006).

In developing economies such as Nigeria, tax dodging carries substantial ramifications. It diminishes the revenue base and undermines the government's ability to fund public goods and services. Akintoye and Tashie (2013) contend that aggressive tax avoidance compromises fiscal sustainability and exacerbates wealth inequality in Nigeria, where tax-to-GDP ratios are already deficient. Tax evasion by multinational corporations (MNEs) poses significant challenges, as they employ international tax planning tactics that local tax authorities may be unable to identify (OECD, 2013).

Uadiale, Fagbemi, and Ogunleye (2010) noted that in Nigeria, companies frequently capitalize on ineffective tax administration, antiquated tax legislation, and insufficient audit oversight to partake in aggressive tax strategies. This behavior adversely impacts government income and distorts market competition, placing conforming enterprises at a disadvantage.

Empirical literature identifies several determinants of tax avoidance. Richardson and Lanis (2007) assert that firm-specific characteristics, including profitability, leverage, corporate governance frameworks, and managerial incentives, influence tax planning behaviour. Nwaobia et al. (2016) discovered that in Nigeria, companies with deficient corporate governance processes are more prone to tax avoidance, underscoring the significance of internal controls.

Additionally, tax avoidance is occasionally perceived in the context of corporate social responsibility (CSR). Although companies assert their commitment to social responsibility, their involvement in tax avoidance may undermine these assertions. Hoi, Wu, and Zhang (2013) discovered that companies with robust CSR procedures are less inclined to participate in tax avoidance, indicating that public scrutiny and ethical considerations can influence tax behavior.

Tax avoidance denotes tactics utilized by corporations to minimize tax obligations while adhering to legal parameters (Slemrod, 2004). While permissible, these tactics may include assertive planning that contravenes the intent of tax legislation, diminishing the tax revenue submitted to the government. In empirical research, tax avoidance is typically represented by the effective tax rate (ETR), calculated as total tax expense divided by pre-tax income (Hanlon & Heitzman, 2010).

Audit Firm Attributes

Audit firms function as essential external overseers of company financial reporting, and their attributes can profoundly affect the degree to which customers participate in tax avoidance. The relationship between tax planning and auditor characteristics is especially significant in nations such as Nigeria, where institutional deficiencies, regulatory exploitation, and assertive tax strategies are common (Okoye et al., 2019). Attributes of audit firms, including size, independence, tenure, audit quality, and industry specialty, have been shown to influence the aggressiveness of tax techniques employed by organizations.

- **Audit Firm Size:** The size of an audit firm, as indicated by affiliation with the Big 4, is typically correlated with superior audit quality attributable to enhanced resources, knowledge, and reputational considerations (Francis, 2004). Major audit companies are typically less inclined to collaborate with clients on aggressive tax avoidance due to their risk-averse disposition and the possible reputational harm stemming from scandals. In Nigeria, research by Oladipupo and Izedonmi (2019) indicates that companies audited by Big 4 firms demonstrate reduced tax avoidance behaviors compared to those examined by smaller businesses.

- **Audit Tenure:** Audit tenure denotes the duration an auditor has been engaged by a specific client. Although extended employment may enhance the auditor's comprehension of the client's operations, it may also lead to familiarity threats that undermine objectivity. Enekwe et al. (2020) identified a non-linear correlation between

audit duration and tax avoidance in Nigeria: tax avoidance diminishes with intermediate tenure but escalates with extended involvement, presumably due to diminished auditor skepticism with time. Johnson, Khurana, and Reynolds (2002) asserted that prolonged tenure can enhance auditor expertise but may compromise independence over time.

- **Audit Independence:** An essential element that guarantees impartiality. Independence is fundamental to audit quality. Independent audit firms, both in reality and perception, are more inclined to contest aggressive tax methods (Carey & Simnett, 2006). Nonetheless, extended audit tenures and the provision of non-audit services may compromise independence. Excessive dependence on non-audit fees may jeopardize auditor independence (DeAngelo, 1981). Agbatogun and Owolabi (2018) discovered a strong correlation between diminished auditor independence in Nigeria and increased tax evasion, indicating that compromised auditors may disregard aggressive tax methods to maintain client relationships.

- **Industry Specialization:** Firms that audit several clients within a specific area are considered to possess experience that improves audit quality (Craswell, Francis, & Taylor, 1995). Audit firms specializing in particular industries may have enhanced technical expertise and contextual insight, allowing them to recognize and contest industry-specific tax loopholes. Chi et al. (2012) shown that auditors with industry specialty are inclined to conduct audits of superior quality, resulting in less aggressive tax planning. Uwuigbe et al. (2014) corroborated this conclusion in Nigeria, demonstrating that clients of industry-specialist auditors display more conservative tax behaviors.

- **Leverage and Audit Firm Attributes**

Leverage is generally quantified as the ratio of total debt to total assets, indicating a firm's dependence on debt funding. It has significant consequences for tax planning and audit decisions, and it interacts with audit firm characteristics in several ways. Firms with high leverage have increased financial risk and may encounter more stringent oversight from creditors, investors, and authorities. To bolster trust and diminish loan costs, such organizations may enlist esteemed audit firms, specifically the Big 4 or industry-specialist auditors, recognized for their high audit quality (Francis, 2004; Pittman & Fortin, 2004). Leverage can enhance a firm's incentive to manipulate results or pursue tax evasion to comply with debt covenants or prevent defaults. In these circumstances, the involvement of independent auditors is essential to curtail administrative discretion and guarantee that financial statements accurately represent obligations and income (DeFond & Zhang, 2014). Nevertheless, when auditors are economically tied (e.g., due to excessive non-audit services), their independence may be compromised, hence diminishing the safeguards against aggressive tax methods.

Weak enforcement and inadequate disclosure policies may allow high-leverage businesses to abuse the familiarity between audit firms and clients, particularly in long-term engagements, hence diminishing audit scrutiny unless robust institutional frameworks or independent audits are established (Agbatogun & Owolabi, 2018).

In empirical models analyzing the impact of audit firm characteristics on tax evasion, leverage is commonly employed as a control variable, as it influences both a firm's tax shield (through interest deductibility) and its requirement for external auditing. Leverage is a crucial factor influencing audit demand and tax conduct. Companies with elevated debt levels are more susceptible to agency conflicts between managers and creditors, necessitating high-quality audits as a monitoring tool (Jensen & Meckling, 1976; Francis, 2004). As a result, major companies typically use esteemed and independent auditing organizations to bolster financial integrity and adherence to regulations. Nevertheless, elevated leverage may intensify the impetus to underreport earnings or diminish declared tax obligations to comply with debt covenants. When audit independence is undermined due to prolonged employment or excessive non-audit fees, such practices may remain unmonitored. Consequently, leverage may influence or interact with audit firm characteristics in shaping tax avoidance behavior.

- **Profitability and Audit Firm Attributes**

Profitability, typically assessed through return on assets (ROA) or net profit margin, can impact a firm's

auditing decisions and tax practices. It serves as both a control variable in numerous empirical models and a moderating element in the correlation between audit company features and tax avoidance. Profitable companies are more inclined to hire esteemed audit firms (e.g., Big 4 auditors) because of the increased reputational risk linked to earnings management and tax evasion. Employing a reputable auditor indicates transparency and responsibility, particularly to investors and regulators (Francis & Wang, 2008). This is especially applicable in nations such as Nigeria, where external oversight is frequently inadequate, and companies actively demonstrate credibility by their selection of auditors. Oladipupo and Izedonmi (2019) assert that profitable Nigerian enterprises are more inclined to select Big 4 auditors to bolster investor trust and mitigate audit risk premiums. Substantial profitability may incentivize management to pursue tax avoidance strategies to diminish reported earnings and tax obligations. Nonetheless, auditors—especially independent, long-tenured, and industry-specialist auditors—act as external overseers to deter such abuses. When auditors are robust, the correlation between profitability and tax avoidance diminishes. In companies inspected by specialized or respected auditors, profitability does not result in increased tax dodging, owing to good oversight. Conversely, inferior audits may associate big earnings with more assertive tax methods. In numerous research investigating audit company characteristics and tax avoidance, profitability serves as a control variable to differentiate its influence from the audit variables. Profitability immediately influences tax liabilities and may relate to the firm's capacity and motivation to do tax planning. Return on Assets (ROA) is frequently incorporated into regression models to confirm that the detected audit effects are not just artifacts of profit performance (Hanlon & Heitzman, 2010).

Empirical Review

Numerous empirical researches have investigated the correlation between audit firm attributes and tax avoidance, resulting in inconsistent and occasionally conflicting conclusions. These discrepancies may arise from variations in institutional contexts, regulatory standards, organizational factors, and methodological frameworks.

Olatunji and Adekoya (2021) indicated a negative correlation between audit company size and tax avoidance in Nigeria, implying that larger audit firms, typically part of the Big 4, exhibit greater conservatism and reduced acceptance of aggressive tax planning tactics. Their findings support the notion that esteemed audit companies prioritize their reputation and exercise greater prudence in permitting their customers to participate in tax-avoidance strategies.

Okoye and Adediran (2020) investigated auditor independence and discovered that enhanced independence markedly diminished tax avoidance in Nigerian enterprises. This indicates that auditors who uphold objectivity and reduce economic reliance on clients are more inclined to examine and disclose dubious tax methods.

In contrast, Uwuigbe et al. (2021) examined audit tenure and discovered a negligible correlation with tax avoidance, suggesting that extended engagement does not inherently diminish auditor independence or amplify managerial opportunism. This discovery contests the notion that prolonged audit tenures necessarily undermine audit quality, particularly in situations where audit rotation procedures are not rigorously implemented.

In a worldwide context, Desai and Dharmapala (2006) provided evidence that robust corporate governance measures, particularly effective audit monitoring, might diminish the positive correlation between executive remuneration incentives and tax avoidance. Their findings substantiate the significance of external oversight in mitigating aggressive tax planning.

Richardson, Taylor, and Lanis (2016) expanded this research by investigating the impact of industry-specialized auditors, discovering that these auditors improve the integrity of financial reporting and diminish potential for tax evasion. Industry experts are more proficient at discerning intricate tax methods and spotting sector-specific dangers.

Lanis and Richardson (2011) observed that audit quality, indicated by Big 4 affiliation, has a negative correlation with tax aggression, hence supporting the idea that superior audit quality discourages aggressive tax

practices. Their research, while not particular to Nigeria, aligns with results in emerging markets, where institutional deficiencies render audit quality increasingly vital.

Nwaobia et al. (2016) discovered that company governance frameworks substantially affect tax planning behavior in Nigeria. Their findings implicitly emphasize the influence of auditors on tax outcomes, as robust governance frequently depends on proficient audit techniques. Adebayo and Akinniyi (2020) noted that audit quality strongly affects tax compliance in Nigerian manufacturing enterprises, highlighting the essential function of auditor examination in influencing tax decisions.

Notwithstanding these contributions, a scarcity of localized, firm-specific research persists that thoroughly examines the relationship between audit firm characteristics and tax avoidance within Nigeria's distinct legislative and commercial environment. The audit market in Nigeria is notably consolidated, and regulatory enforcement frequently lacks consistency, thereby undermining the deterrence function anticipated from audit firms. This necessitates more sophisticated inquiries that examine how institutional gaps, informal conventions, and client-auditor interactions influence audit efficacy in curbing tax avoidance.

Theoretical Review

Agency theory in the context of Nigeria's institutional framework underscores the role of auditors in mitigating agency costs that arise due to managerial opportunism in an environment with weak enforcement of corporate governance practices. Political cost theory highlights the extent to which Nigerian firms may use tax avoidance strategies to avoid regulatory scrutiny, particularly in light of Nigeria's political instability and evolving tax laws. Legitimacy theory, in Nigeria's context, suggests that firms may engage in tax avoidance to preserve their social legitimacy in the face of heightened public scrutiny and the prevalence of informal institutions that often replace formal regulatory enforcement mechanisms.

Agency Theory

Agency theory, initially proposed by Jensen and Meckling (1976), focuses on the principal-agent relationship, wherein corporate managers (agents) are anticipated to behave in the best interests of shareholders (principals). In practice, however, managers may behave opportunistically, making actions such as tax evasion to fulfill personal objectives, such as enhancing short-term performance-based compensation or obscuring underperformance. Tax avoidance may therefore exemplify agency difficulties when employed to obscure actual financial performance or diminish regulatory scrutiny, ultimately compromising long-term shareholder value.

Auditors serve as essential external overseers responsible for reducing agency costs. Competent and autonomous auditors are more inclined to identify and prevent aggressive tax practices by enhancing the probability of detection and reputational harm. In contexts such as Nigeria, characterized by poor law enforcement and developing corporate governance, auditors play a crucial role in reconciling the trust deficit between management and shareholders (Fan & Wong, 2005; Oboh & Ajibolade, 2017).

Theory of Political Costs

The political cost argument, introduced by Watts and Zimmerman (1986), posits that larger, more profitable, or highly prominent enterprises are more susceptible to examination by governments, regulators, or activist organizations. To diminish their public visibility or evade punitive taxation and regulation, such corporations may strategically employ tax evasion to project a facade of reduced profitability or influence.

Reputable audit firms are less inclined to support aggressive tax strategies that could attract political or regulatory scrutiny. Auditors eschew affiliation with high-risk tax practices to uphold public confidence and safeguard their brand value (Hanlon & Heitzman, 2010). In Nigeria's complex and politically charged tax environment, the reputational protection offered by Big 4 auditors may diminish customers' propensity to participate in aggressive tax evasion strategies.

Theory of Legitimacy

Legitimacy theory, proposed by Suchman (1995), posits that organizations endeavor to conform to the norms, values, and expectations of the wider society to attain legitimacy and social acceptance. This entails embracing transparent processes and eschewing unethical behaviors, including aggressive tax avoidance. Stakeholders, including investors, customers, and regulators, are more apprehensive about corporate responsibility, and companies now encounter reputational concerns stemming from non-compliant tax practices (Lanis & Richardson, 2012).

Firms control their credibility by employing recognized audit firms. A Big 4 or independent auditor conveys a robust indication to stakeholders that the organization complies with elevated norms of corporate governance and ethical behavior. In Nigeria, where informal institutions frequently replace inadequate regulatory monitoring, symbolic actions such as employing esteemed auditors might serve as an effective method for legitimacy.

METHODOLOGY

Purposive sampling was used to select 50 firms that met specific criteria, ensuring that only those with available and reliable audit data were included. This approach allows for a focused investigation of firms within Nigeria's unique institutional context, where access to reliable data can be a challenge. Additionally, the effective tax rate (ETR) is an appropriate proxy for tax avoidance, as it captures a firm's overall tax burden relative to its earnings, thus providing a comprehensive measure of tax avoidance behaviour. Previous studies, such as Hanlon and Heitzman (2010), have widely employed the ETR to measure tax avoidance due to its ability to reflect corporate tax behaviour holistically.

Research Design

This study adopts a correlational research design using quantitative methods to examine the relationship between audit firms' attributes and tax avoidance among listed companies in Nigeria. The correlational approach is appropriate because the study aims to assess the degree and direction of association between multiple audit firm characteristics and a proxy measure for tax avoidance without manipulating any variables (Creswell, 2014).

Population and Sample

The target population comprises all non-financial firms listed on the Nigerian Exchange Group (NGX) between 2015 and 2023. Financial institutions were excluded due to their distinct regulatory frameworks and financial reporting structures. A purposive sampling technique was employed to select 50 non-financial firms with complete and accessible financial data over the study period. The selection criteria ensured the inclusion of companies with consistent audit firm disclosures and tax-related financial information.

Sources and Method of Data Collection

The study utilized secondary data sourced from the annual financial statements of the selected companies, retrieved from the NGX website, individual company websites, and the Nigerian Corporate Affairs Commission database. Data collected covered key financial items such as total tax expense, profit before tax, audit firm identity, auditor tenure, audit fees, and firm-specific control variables.

Measurement of Variables

Dependent Variable:

Tax Avoidance (TAV): This was measured using the Effective Tax Rate (ETR), calculated as total tax expense divided by profit before tax. A lower ETR indicates a higher level of tax avoidance (Hanlon & Heitzman, 2010).

Independent Variables:

Audit Firm Size (AFS): A dummy variable where 1 represents firms audited by a Big 4 audit firm (Deloitte, PwC, EY, or KPMG) and 0 otherwise (Francis, 2004).

Audit Tenure (ATN): Measured as the number of consecutive years the same audit firm has audited the client (Johnson et al., 2002).

Audit Independence (AID): Measured by the ratio of non-audit fees to total audit fees. A higher ratio suggests lower independence (DeAngelo, 1981).

Industry Specialization (AIS): A dummy variable where 1 indicates that the audit firm audits at least 20% of the firms in a specific industry, and 0 otherwise (Craswell et al., 1995).

Control Variables: These comprise;

Firm Size (FSZ): Logarithm of total assets.

Leverage (LEV): Total debt divided by total assets.

Profitability (ROA): Return on Assets, measured as net income divided by total assets.

3.5 Model Specification

To assess the effect of audit firm attributes on tax avoidance, the following panel regression model was formulated:

$$TAV_{it} = \beta_0 + \beta_1 AFS_{it} + \beta_2 ATN_{it} + \beta_3 AID_{it} + \beta_4 AIS_{it} + \beta_5 FSZ_{it} + \beta_6 LEV_{it} + \beta_7 ROA_{it} + \epsilon_{it}$$

Where:

TAV_{it} : Tax Avoidance for firm i in year t

β_0 : Intercept

$\beta_1 - \beta_7$: Coefficients of explanatory variables

ϵ_{it} : Error term

The panel data nature of the study permits the use of either fixed effects or random effects estimation techniques. The Hausman test was employed to determine the more appropriate model.

Method of Data Analysis

Data were analyzed using Stata 17. Descriptive statistics, correlation analysis, and diagnostic tests (including multicollinearity, heteroskedasticity, and autocorrelation) were conducted before the main regression analysis. The regression results were interpreted based on the sign, magnitude, and statistical significance of the coefficients at 1%, 5%, and 10% levels.

RESULTS AND DISCUSSION

Descriptive Statistics

The descriptive statistics for the variables used in the model are presented in Table 1. The mean effective tax rate (ETR) for the sampled firms is 0.203, indicating an average tax payment of 20.3% of pre-tax income, suggesting moderate tax avoidance. Audit firm size shows that 62% of the firms were audited by Big 4 firms

during the period under review. The average audit tenure was 4.3 years, with some firms maintaining the same auditor for over a decade.

Table 1: Descriptive Statistics of Variables

Variable	Mean	Std. Dev.	Min	Max
TAV (ETR)	0.203	0.112	0.031	0.487
AFS (Dummy)	0.62	0.485	0	1
ATN (Years)	4.30	2.85	1	12
AID (Ratio)	0.23	0.17	0.01	0.65
AIS (Dummy)	0.46	0.499	0	1
FSZ (Log TA)	15.04	1.27	12.81	17.92
LEV	0.44	0.21	0.11	0.91
ROA	0.087	0.053	-0.02	0.21

Source: Researcher's Computation (2025)

Correlation Analysis

Pearson correlation results reveal that audit firm size (AFS) and industry specialization (AIS) are negatively correlated with tax avoidance (ETR), implying that firms audited by Big 4 or specialized auditors are less likely to avoid taxes. Audit tenure (ATN) and audit independence (AID), however, show weak positive correlations with tax avoidance, suggesting a potential erosion of audit quality or independence over time.

Regression Analysis

The results of the panel regression using fixed effects (based on the Hausman test) are presented in Table 2: Regression Results (Dependent Variable = TAV)

Table 2.

Variable	Coefficient	Std. Error	t-Statistic	p-Value
AFS	-0.042	0.019	-2.21	0.028 **
ATN	0.006	0.004	1.52	0.133
AID	0.071	0.031	2.29	0.024 **
AIS	-0.038	0.017	-2.17	0.031 **
FSZ	0.012	0.008	1.50	0.136
LEV	-0.029	0.021	-1.38	0.170
ROA	-0.045	0.054	-0.83	0.409

Constant	0.189	0.053	3.57	0.001 **
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Source: Researcher's Computation (2025)

R-squared = 0.294 | F-statistic = 6.38 | p-value = 0.000

Note: $p < 0.05$ (**), $p < 0.10$ (*)

DISCUSSION OF FINDINGS

The regression results provide empirical support for the effect of certain audit firm attributes on tax avoidance.

Audit Firm Size (AFS): The negative and statistically significant coefficient implies that firms audited by Big 4 auditors are less likely to engage in tax avoidance. This aligns with prior studies (Francis, 2004; Olatunji & Adekoya, 2021) and confirms that large audit firms enforce higher ethical standards and rigorous audit practices, thereby deterring aggressive tax strategies.

Audit Tenure (ATN): Though positively related to tax avoidance, the relationship is statistically insignificant. This supports findings by Uwuigbe et al. (2021) that long auditor-client relationships do not automatically impair audit quality in Nigeria. However, the positive direction suggests a potential threat to independence that may require regulatory attention.

Audit Independence (AID): A significant positive relationship is found between the ratio of non-audit fees and tax avoidance, implying that increased economic bonding between auditors and clients may compromise independence (DeAngelo, 1981). This validates concerns that auditors who derive substantial revenue from advisory services may overlook aggressive tax behaviors.

Industry Specialization (AIS): The significant negative coefficient indicates that industry-specialized auditors help curb tax avoidance. This supports Richardson et al. (2016) and Craswell et al. (1995), who argue that industry knowledge enhances auditors' ability to detect and challenge nuanced tax strategies.

Control variables such as firm size, leverage, and profitability had no significant impact on tax avoidance in this study, although the signs are consistent with prior literature.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This study examined the effect of audit firm attributes on tax avoidance among listed non-financial firms in Nigeria between 2015 and 2023. Drawing from agency theory, political cost theory, and legitimacy theory, the research evaluated how audit firm size, tenure, independence, and industry specialization influence firms' tax behavior. Using panel data regression, the study found that audit firm size and industry specialization significantly reduce tax avoidance, suggesting that larger and more specialized audit firms are more effective at curbing aggressive tax strategies.

Conversely, audit independence (proxied by the ratio of non-audit to total audit fees) was positively associated with tax avoidance, implying that the provision of non-audit services may impair auditor objectivity. Audit tenure, although positively related to tax avoidance, did not yield statistically significant results. These findings underscore the critical role of audit firm characteristics in promoting tax compliance and financial integrity within the Nigerian corporate environment.

In summary, the results highlight that not all audit firms are equally effective in limiting tax avoidance. The institutional reputation, independence, and industry expertise of audit firms play pivotal roles in shaping the tax behavior of corporate clients. The study contributes to the growing body of literature on audit quality and

corporate governance by providing evidence from a developing economy with distinct regulatory and enforcement challenges.

Recommendations

Based on the findings, the following recommendations are proposed:

Encouragement of Reputable Audit Firms: Regulatory authorities, such as the Financial Reporting Council of Nigeria (FRCN) and the Securities and Exchange Commission (SEC), should encourage the engagement of high-quality audit firms (particularly Big 4 firms) to promote transparent tax reporting and reduce avoidance.

Regulation of Non-Audit Services: To safeguard auditor independence, policymakers should consider placing caps or introducing strict disclosure requirements on the proportion of non-audit services provided by statutory auditors, as excessive reliance on advisory fees may impair audit objectivity.

Promotion of Industry Expertise: Firms should consider hiring auditors with industry-specific knowledge, as specialized auditors demonstrate a greater ability to identify tax avoidance strategies unique to particular sectors.

Audit Rotation Policies: Although audit tenure was not found to be statistically significant, the positive relationship with tax avoidance suggests that prolonged auditor-client relationships may be problematic. Regulatory reforms should revisit audit rotation policies to ensure periodic review of audit engagement without sacrificing audit quality.

Strengthening Audit Oversight: Strengthening institutions such as the Audit Regulation Directorate and the Nigerian Accounting Standards Board (NASB) is essential to ensure compliance with audit quality guidelines and improve tax transparency across the corporate sector.

Suggestions for Further Research

Future research may expand the scope by incorporating financial firms and exploring the moderating role of board characteristics or corporate governance practices on the relationship between audit firm attributes and tax avoidance. Additionally, qualitative approaches such as interviews with auditors and tax regulators could provide deeper insights into behavioral and institutional factors influencing audit effectiveness in tax matters.

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