Do Non-Large Networks Engage in Portfolio Restructuring? A Signal Detection of Peak Period Capability Pressure

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This study considers the local offices of medium-sized audit firms as a unit of analysis. Adapting measures validated in earlier studies, this paper develops a model and evaluates the model that directly describes all variables that affect portfolio structuring in an auditor-client environment during peak periods. Using a sample of 237 local office observations between 2007 and 2011 among medium-sized audit firms in Nigeria, evidence of a positive association between capability pressure and the likelihood of portfolio restructuring is reported. The results lend credibility to the implications of capability pressure characterized by the year-end effects of assurance providers. This position is consistent with earlier studies on portfolio management decisions of external auditors.

"Fit no stereotypes. Don't chase the latest fads of clients. The situation dictates which approach best accomplishes the team's mission." [Authors' emphasis added] (Colin Powell – former United States Secretary of State). This quotation describes a managerial allocation of resources and the display of flexibility in managerial decision making. Auditors often experience capacity pressure as a result of the *peak period* syndrome. The best way to overcome this barrier in order to prevent underreported time and premature signoffs depends on the situation (for instance, capacity constraint) and expected results. A technique that works best under a particular peak period pressure may not necessarily work in all cases because of differences in the respective situations.

Auditors must identify what technique will, in a particular accounting period, under particular circumstances and at a particular time, best achieve the containment of audit risk and improve audit quality.

A large number of companies in Nigeria list the end of their reporting period as December. This choice for a company's calendar year may differ from the country's actual fiscal year. In some jurisdictions, particularly those that permit tax consolidation, companies that are part of a group must use nearly the same fiscal year (up to three months difference are permitted in some countries such as the U.S. and Japan), with consolidating entries to adjust for inter-company transactions with different fiscal years. Nevertheless, the fiscal year is identical to the calendar year for most publicly traded companies in the U.S., the majority of large corporations in the U.K., and elsewhere (with notable exceptions like Australia, New Zealand, and Japan). Most choices of fiscal year end dates are the product of local laws, regulations, customs, business and trade practices. Similar to what is experienced in developing jurisdictions, the recurrent use of months like December creates the peak period effect. This frequently leads to capability pressure, a phenomenon attributed to the relative concentration of companies with identical fiscal year-end in an auditor client's portfolio (Lopez & Pitman, 2013).

This capability pressure could result in dysfunctional auditor behavior, including premature sign-off and underreported time (Lovelock, 1984; Parasuraman, Zeithhamel, & Benry, 1985; Margheim & Pany, 1986; Kelly & Margheim, 1990; Sridharan, 1998; Houston, 1999; Landsman, Nelson, & Roundtree, 2009). A number of prior behavioral research and anecdotal evidence have demonstrated that for many service firms, deterioration in quality has often been a by-product of capacity constraints consequential to peak period demands, even though others suggest the contrary (Agoglia et al., 2010). Experiential studies that focus on the effects of workload compression on portfolio management decisions of auditors have been limited, except for a few (Shu, 2000; Lopez & Pitman, 2013) which concentrated on the Big-N firms. Furthermore, recent years have increased complexity and risk is standard fare on an independent auditor's plate as changing business and risk environments are continually shaped by technology and digitization, globalization, increased local and international regulations and enforcement, as well as expectations for greater transparency (KPMG, 2013). As the business landscape becomes more fast paced, there is movement towards leveraging advanced business analysis techniques to refine the focus on risk and derive deeper insights for new evidence about the current role of capability pressure on portfolio management decisions of auditors.

Given that the Non-Big-N firms are an increasingly important but poorly understood sector of the audit market even in developing jurisdictions, feature specificity in prior studies was considered for the Big-N firms and a model was developed and empirically assessed using a sample of 237 local office-year observations between 2007 and 2011 among medium-sized audit firms in Nigeria. The proxy for auditor capability pressure was the ratio of professional fees from client portfolios with a fiscal year end date of December to total fees. Auditor-client misalignment was also used as a control variable (Shu, 2000). As in Lopez and Pitman (2013), three dimensions of audit risk were measured: earnings manipulation risk, financial performance risk, and litigation risk. This study did not delineate between first-tier, second-tier, and other mid-size audit

firms within the population and the sample only included local offices in Lagos, the commercial nerve center in Nigeria. Hence, there may be induced substantial variation in the subjects' behavior within replications of market treatments which could limit the interpretation of the study's results. The study found evidence of a positive association between auditor capability pressure and the likelihood of portfolio restructuring of a local office during peak period. The result lends credibility to the hypothesis that the likelihood of peak period client portfolio reorganization is increasing with the concentration of companies with a December year-end date in the auditor's portfolio. The outcome of the study's logistic regression shows the existence of a positive link between auditor-client misalignment and the likelihood of peak period portfolio restructuring. The results for the auditor proxies are generally consistent with extant literature, which supports the view that an auditor portfolio and client turnover are largely determined by the presence of risk in their portfolios. This paper's conclusions substantially contribute to audit firm portfolio management literature by placing smaller firms in a developing economic setting under empirical evaluation. This study is useful in the portfolio restructuring strategies of mid-sized audit firms as the unit of analysis in relation to capability pressure during peak periods. It also provides evidence on the differential effects of audit market vicissitudes on Big-N versus Non-Big-N firms. It strengthens past studies involving audit risk dimensions and clients' portfolio management for assurance providers. As a supply side determinant of client portfolio management, it is a unique line of proof explorable by audit market niches.

Prior Studies and Background

This section will discuss evidence from past studies on auditors' workload compression during the busy season and implications for a client's portfolio management. A relevant hypotheses in each subsection will also be developed.

Size and Importance of Non-Large Networks

Concentration in the market for audit services exists in the literature. The existence of a two-tiered audit market has also been documented. The implicit assumption is that smaller audit firms are incapable of providing equivalent levels of audit services to large public company clients (Ferguson, Francis, & Stokes, 2003). While the four large networks have subsidiaries in the country, there are over 916 registered accountancy firms in Nigeria (Nairametrics, 2012). However, there are other large and medium-sized firms with market share for over 17,284,671 micro-small and medium enterprise (MSMEs) (National Bureau of Statistics, 2010) clients. This sector of the audit market contributes to MSME's tremendous role in reengineering the socio-economic landscape of the country. The market for auditing in Nigeria is self-regulated and there is no mandatory restriction to the "audit only" model, hence medium and small audit firms are not prohibited from offering non-audit services. Subsequently, these professional partnership firms contribute to MSME's social and political role in local employment creation, balanced resource utilization, income generation, utilization of local technology and raw materials, and in helping to promote change in a gradual and peaceful manner through the provision of non-audit services. These range of services

include but are not limited to consulting in areas of financial information systems, design and implementation, and tax-related services. This segment of external auditing in Nigeria constitutes more than 90% of the entire population (13 large/medium-sized and 903 small firms) (Nairametrics, 2012). Hence there is a need to understand the phenomenon of client portfolio structuring in this sector.

Audit Firm Portfolio Risk Management

Audit firms are increasingly recognizing that effective portfolio management assists with decisions that set them apart from their competitors in terms of organizational success. A significant portion have in their tactical strategies, vibrant portfolio management culture and frequently implement appropriate tools and practices. Effective client portfolio management supports audit firms' intent, direction, and progress towards achieving strategic objectives (Gramling et al., 1998; Bell et al., 2002). When making portfolio management decisions, auditors preferentially price their assurance services while being cognizant of risk differences amongst their clients. Anecdotal evidence has related the overall audit engagement risk primarily to that associated with litigation costs even though there is another dimension of audit risks. Thus, auditors consider this assessment as a vital component of client portfolio management (Huss, Jacobs, & Patterson, 1993; Johnstone, 2000). When managing clients' portfolios, auditors should note, but also not solely focus on, litigation risk (Asare, Hackenbrack, & Knechel, 1994; Asare & Knechel, 1995; Huss & Jacobs, 1991). When managing their portfolio, various strategies are adopted to control for risk, which may include, but are not limited to, close monitoring of personnel related policies, heightened financial reporting related risks, management integrity, internal controls and the performance of additional audit procedures (Boone, Khurana, & Raman, 2008; Manry, Mock, & Turner, 2008).

Research on clients' portfolio management is important given that incorrect decisions create potential liabilities that may affect audit quality and ultimately auditor's financial viability and reputation (Colbert, Leuhlfing, & Alderman, 1996), yet a limited amount of accounting studies do provide insights into the client portfolio management decisions of assurance providers from the supply side. In response to this limitation of data, in a two-party experimental setting, Gramling et al. (1998) demonstrated the impact of legal liability regimes and differential client risk on audit client acceptance, pricing, and audit effort decisions. This laboratory-market-based study provides researchers with direct evidence of the impact of perceived litigation risks of audit fees and efforts when selecting audit clients. This method has been developed and utilized in earlier studies (Schatzberg, 1990; Schatzberg & Sevcik, 1994; Dopuch, King, & Schatzberg, 1994). Using proprietary data on audit effort, billing rates and risk assessments in the portfolio of continuing clients of a major accounting firm, Johnstone and Bedard (2005) studied shifts in audit planning and pricing decisions within a three year period. They assert that consistent with accelerating litigation, environmental, regulatory scrutiny, and planned audit efforts, average client billing rates tend to increase. The result of the study also suggests that engagement teams demonstrate particular concern for clients with heightened risks related to financial reporting, management integrity, and internal controls. This implies that it is unlikely that increased fees resulting from opportunistic

pricing have positive implications for audit quality.

Driven by increasingly large awards, settlements and insurance costs, the second half of the 1980's was plagued by a considerable increase in litigation pressure on large audit firms (Arthur Anderson et al., 1992), leading to widespread concerns that major audit firms were "not going to be doing business with companies that [were] at risk…and the general well-being of the public [was] not going to be served because the better talent [was] not going to be out on the most difficult situations" (Chicago Tribune, 1987, C8). Subsequent mergers among large audit firms were suggested as a response to the increase in litigation liability pressure (Lys, 1993) having an adverse impact on the supply side of the audit market. In a twenty-two year partitioned period of study, Choi, Doogar, and Ganguly (2004) investigated whether the financial riskiness of large audit firms varied with changing audit liability litigation environment. The study, which was delineated into four distinct phases across different client types (e.g., incoming clients, continuing clients), and auditor types (Big-N, Non-Big N) observed that during the time when the Big 6 market shares grew appreciably, the proportion of litigations-industry clients grew at about the same rate as the proportion of such clients in the population. This also supported the view that the riskiness of the Big- N client portfolios reacted to changes in the audit litigation liability environment.

Local Bias and Auditor Client Portfolio

Empirical and anecdotal examinations recommend that research on auditing phenomena be conducted at city-level markets (Francis & Krishnan, 1999). Using city markets as a unit of analysis, Francis and Krishnan (1999) found that the national accounting firm market leader is not the city-specific market leader the majority of the time. Variation in market leadership at the city-level suggests that the reputations of individual accounting firms vary from city to city. Perhaps many of the final audit outcomes are local office auditor dependent (Krishnan, 2002; Choi, 2007; Choi et al., 2004; Charles, Su, & Wu, 2010; Timmermans, 2013; Asthana, 2013).

While some consider the effect of geographic proximity on audit quality insignificant (Timmermans, 2013), others affirm that the size of local audit offices are major determinants of both audit quality and fees (Choi et al., 2004) as local auditors offer higher quality jobs (Choi, 2007). More conservatively, Asthana (2013) asserted that geographic diversification has a detrimental effect on audit quality, probably due to strain on resources of audit office. Every so often, the local offices of the Big-N firms operate as decentralized, semi-autonomous structures (Bell et al., 2002). Timmerman (2013) found that geographic proximity did not affect the quality of audit. The position of this study is affirmed due to the smaller distances in the Netherlands auditor-clients neighborhood. Perhaps the Dutch audit market is one in which there is no distinction between local and non-local auditors, hence it may be concluded that the result be generalized with caution. Using over 19,000 observations for over 3,000 clients over a ten year period, Asthana (2013) detected that geographic diversification had adverse effects on audit quality while Gaver and Patterson (2007) discovered that the comparative prominence of a client to a local office attenuated auditor oversight over reporting decisions. Most importantly, the

role of local partners in client acceptance, retention, and dismissal decisions of a firm cannot be overemphasized (Lopez & Pitman, 2013). Since audit firms that are more financially integrated are associated with riskier client portfolios (Hay, Baskerville, & Qiu, 2007), the first hypothesis is offered:

> *H_1: Local auditor office structures positively influence the portfolio management decisions of local partners.*

Capability Pressure and Portfolio Management

The public accounting workplace has long been acknowledged as a high stress environment (Gaertner & Ruhe, 1981; Weick, 1983). The relationship between stress and job related outcomes have similarly been well-recognized in behavioral and psychological studies on an individual and organizational performance basis (Sager, 1990; Spector, Dwyer, & Jex, 1988; Williams et al., 2001; Chen, Silverthorne, & Hung, 2006; Virtanen et al., 2009), in particular, absenteeism (Spector et al., 1988). Several accounting literatures also provide the link between job stress and a profession which includes underperformance, job dissatisfaction, job burnout, turnover (Choo, 1997; Fischer, 2001; Fogarty et al., 2000; Larson, 1991; Libby, 1983; Rebele & Micheals, 1990; Senatra, 1980; Smith, Davy, & Everly, 1995, 2007; Sweeney & Summers, 2002), and the inherent risks that could cause damage to public trust in the audit firm in particular and the accountancy profession in general (DeZoort & Lord, 1997). The pressure on time and meeting the budget may lead to a substandard quality of the audit and ultimately lead to premature sign-off, a superficial review of documents, and acceptance of insufficient client verbal evidence (Alderman & Dietrick, 1982; Kelley & Margheim, 1990).

Dalton, Hill, and Ramsay (1997) found that auditors worked more than 60 hours a week during busy season. These workloads did not often decrease during off-peak periods either as would have been expected (Sweeney & Summers, 2002; Ward & Albright, 2009). Noor (2011) stressed the positive relation with job stress. The busy season is a phase characterized by system performance constraints (Mukherjee & Chatterjee, 2006), and hence may influence portfolio restructuring decisions to reduce local office risk and expand the client set arrangement. Therefore,

> *H_2: Capability pressure will positively influence auditor peak period clients' portfolio restructuring.*

Firm Capacity and Auditor Client Misalignment

Bills (2012) described auditor-client misalignment as a situation in which low quality auditors serve high quality clients which are to be served by higher quality auditors and vice versa. This auditor-clientele adjustment is often driven by changes in economic conditions and market competition (Johnson & Lyns, 1990; Shu, 2000). Large but risky companies switching auditors are able to engage other Big-N firms (Reynolds & Francis, 2000) as auditor resignations are influenced by misalignment. Further, clients are able to utilize their opportunity sets as auditors react to manage their portfolio (Lopez & Pitman, 2013). In the post Enron period, Landsman, Minutti-Meza, and Zhang (2009) recounted evidence of increased sensitivity to auditor-client

misalignment. With both parties having limitless opportunities for switching business relationships, the likelihood of increased probability for an auditor's receptiveness to change during their busy season client portfolios exists. Therefore,

H_3: Auditor-client misalignment will have the positive effect of changes to peak period portfolio changes.

Auditor Risk Factors and Portfolio Restructuring

Although there are a number of risk considerations in audit engagements, behavioral evidence suggests three major risks relating to auditor-client realignments (Cassell et al., 2010): earnings manipulation risk (EMR), financial performance risk (FPR), and litigation risk (LR). Evidence suggesting auditors screening of high-earnings risk management clients appears to be rather scanty. Financial reporting manipulations such as unusual levels of accruals are associated with litigation against auditors (Lyns & Watts, 1994; Heninger, 2010). Where an auditor is concerned about a client's inappropriate earnings management, the initial reaction is to avoid (in the case of a new assignment) or withdraw (in the case of existing client) his services (Asare et al., 1994; Knechel, 2001). Johnstone (2000) asserted that auditors adapt to risk differential effects by screening out high-risk clients, even though they are indifferent to such risks when it comes to audit planning and pricing. Auditors often experience a greater demand on audit resources for clients with income increasing accruals (Abbott, Parkers, & Peters, 2010). DeFond and Subramanyam (1998) emphasized that discretionary accruals were significantly income-decreasing in the year prior to a change, and generally insignificant in the post auditor shifting years. Thus,

H_4: Clients-sets earnings management risk will have a positive effect on peak period portfolio changes.

In a study investigating the effects of fraud and going-concern risk on an auditors' assessment of the risk of material misstatements and resulting audit procedures, Allen et al. (2007) analyzed the association between these risks and an auditors' assessment. They found that both fraud risk and going-concern risks were significantly related to the risk of material misstatement. This suggests that a client's financial condition can affect the audit risk evaluation of assurance professionals (Kreutzfeldt & Wallace, 1986; Palmrose, 1987). It also remains a key factor in portfolio structuring (Choi et al., 2004).

H_5: Increases in the level of clients' financial risk positively affect peak period portfolio restructuring.

One of the leading challenges in the audit profession is litigation risk (Lowe & Peckers, 2000). The contemporaneous increase in litigation and internal control risk amplifies the benefits associated with objectivity and defensibility, thus resulting in an interactive effect on decision aid reliance for the audit function. Auditors would often respond to litigation risk by increasing audit fees, planned hours, and evidence requirements (Simunic, 1980; Barron, Pratt, & Stice, 1994; Houston, 1999) particularly

in areas of subjective judgments such as accruals and accounting estimates (Lys & Watts, 1994). Auditors are particularly attuned to potential overstatements of financial performance when the risk of litigation risk is heightened (Barron, Pratt, & Stice, 2001; Hirst, 1994), hence operating environment litigation risks may affect audit reporting decisions (Lopez & Pitman, 2013).

H_6: Intensification of litigation risk will affect peak period client portfolio restructuring.

Research Method

Independent Variable

In order to measure the impact of workload compression, clients' misalignment and auditor risk on portfolio restructuring, the current study developed a model based on local offices of mid-sized audit firms. The decision to restructure the portfolio by audit firms was modeled as a function of all other variables of interest. The existence of incoming and outgoing clients during busy season representing portfolio restructuring was predicated with PPP_RST. The absence of portfolio constituent changes during this period equalled 0 and 1. Using a logistic regression model, local offices were defined without portfolio reshuffling during the busy season as a baseline condition as adapted from previous studies. Data cross-sections were defined according to auditors' sign-off date. This was used in place of the financial statement year in order to eliminate potential timing issues resulting from the gap between the audit completion date and a client's fiscal year-end. This will also afford the opportunity to eliminate the joint audit influence.

Dependent Variables

The independent variables of interest included December workload compression, auditor-client misalignment, earnings manipulation risk (EMR), financial performance risk (FPR), and litigation risk (LR) (all three were captured under *audit risk*). Controls for average client size, local office size, international affiliation, and the fixed effects of time were also included. Further, portfolio size (PRT_SIZE) was operationalized as the mean of the logs of audit fees from the list of clients captured from each local office, while the log of total audit fees from each local office was used for the size of local audit office (LCT_SIZE). As indicated in an earlier section, the concentration of companies in busy season in the auditors' portfolio was referred to as December capability pressure (DEC_CP). This was the proxy for the proportion of aggregate audit fees from peak period clients' total fees generated by the audit client in a particular year.

Auditor-client misalignment in the portfolio of local audit offices was classified with predicted probabilities above a predetermined cutoff point as misaligned. The paper developed an estimate of the probability that a company be paired with a medium-sized audit firm. In developing a proxy for misalignment, the ratio of audit fees from auditor-client pairs classified as misaligned to total audit fees obtained by a local office in an audit calendar year was adopted. Where higher values were obtained for this variable, it can be concluded that there was a greater concentration of misaligned clients within the portfolio. The existence of this feature suggested an expectation of auditor switching. The study adapted variable operationalization as adopted in Lopez

and Pitman (2013) and other literature as cited. The weight (audit fees) of absolute value of performance-adjusted discretionary accruals of all portfolio clients in each local office was used as a proxy for earnings manipulation risk (EMR). Since discretionary accruals quantified the magnitude of management reporting discretions, higher values (EMR) indicated higher levels of the presence of earnings management activity among the clients of a local office.

Financial performance risk (FPR) reflected the overall level of financial performance risk among companies in the auditor's portfolio. The weighted variable was calculated using audit fees. The proxy was the weighted average of the Altman Z-score of all companies in the portfolio of the local firms (Altman, 1968). In this case, higher values were associated with lower likelihood of financial risk or bankruptcy. Subsequently, the Altman score was multiplied by -1 prior to estimating the variance as higher values indicated higher overall levels of financial performance risk. The ratio of audit fees from clients whose industries were characterized by litigation, to total audit fees produced by a local office during the audit year was the proxy for litigation risk (LR). For the purpose of this study, it was projected that financial services, information and telecommunications technology, oil and gas, and service utilities had higher potential litigation risks or auditors. Consequently, higher overall levels of litigation risk in auditor client portfolio were indicated by higher LR values, which were expected to influence auditor switching decisions. For office size, the proxy was the log of total audit fees from each local office, while for client size, it was the mean of the logs of audit fees from all portfolio clients. FIRM_1, FIRM_2, FIRM_3, and FIRM_4 were proxies for the local offices of the firms included in the study sample.

Survey Design

Data for this study were collected through primary sources accessed from four local offices of selected medium-sized audit firms. These firms with local office locations supported this paper's research with enough information relevant to estimate the different components of the regression model. The paper limited the sample to Lagos offices and to maximize the number of company-year observations in the estimation, each regression model variable was separately operationalized. Beginning with an original sample of 836 local office-year observations between 2007 and 2011 from the firms which were considered accessible from privileged information, 599 observations were eliminated due to incomplete data. The final sample therefore consisted of 237 local-office year observations, representing 4 local offices of the firms being surveyed. The untabulated sample construction revealed that of this figure, local offices with expanding clients' portfolio restructuring represented 104 observations, while contracting clients' portfolio restructuring represented 133 observations. Lopez and Pitman (2013) described expanding client portfolio as a positive difference between audit fees emanating from incoming and outgoing December year-end clients, and contracting client portfolios.

Results of Analysis

Procedures

A preliminary analysis was performed by means of survey tabulation. The

objective was to gather results according to the topic of interest. Therefore, it allowed for making a comparative analysis and also to contrast the tendencies of different variables. A multivariate analysis was also conducted that focused on exploring the degree of dependency between the binary dependent variable that was the peak period client portfolio restructuring and the independent variables of interest. In order to achieve this, two steps were carried out. First, a factorial analysis was used to evaluate the influence of individual variables and their interactions in order to identify a reduced number of factors which could readily explain them. Second, a logistic regression was applied to analyze the influence of those factors on the dependent variable, making use of the stepwise procedure as a significant predictor in each of the regressions performed.

Descriptive Statistics

Subsequent to the partitioning of the sample into offices with and without portfolio restructuring during the busy season, the study arrived at 237 and 172 observations respectively. The results presented in Table 1 revealed that offices with active portfolio restructuring during the peak periods had a higher concentration of clients with December year-ends (0.893 vs. 0.864; p-value = 0.098). Further, there was also a higher concentration of financial risk in the portfolio of such offices with active restructuring as compared to those offices without changes (-1.462 vs. -1.788; p-value < 0.001). With regards to office size, the study found offices with active portfolio changes during the peak period significantly larger than others without client restructuring (18.802 vs. 16.421; p-value < 0.001). Other detail revealed that *Firm_2* had the largest proportion of local offices with changes (LOCL_FM2 = 0.318), while *Firm_3* was discovered to be the most sensitive without portfolio restructuring (LOCL_FM3 = 0.386).

Table 1: *Descriptive Statistics*

	Local offices with peak-period portfolio restructuring (n = 237)			*Local offices without peak-period portfolio restructuring (n = 599)*				*Combined Observations (n=836)*		
Variable	*Mean*	*Median*	*STD*	*Mean*	*Median*	*STD*	*t-test p-value*	*Mean*	*Median*	*STD*
DEC_CP	**0.893**	0.816	0.164	**0.864**	0.876	0.174	0.098	**0.754**	0.804	0.211
MISALIGNED	**0.078**	0.032	0.134	**0.068**	0.006	0.063	0.615	**0.074**	0.022	0.307
EMR	**0.061**	0.056	0.031	**0.049**	0.043	1.321	0.127	**0.063**	0.052	0.214
FPR	**-1.462**	-1.437	1.231	**-1.788**	-1.654	0.261	<0.001	**-1.404**	-1.486	0.386
LR	**0.154**	0.111	0.167	**0.127**	0.042	0.935	0.838	**0.147**	0.083	1.321
PRT_SIZE	**13.784**	13.945	0.675	**13.796**	13. 842	1.117	0.186	**13.674**	13.751	0.435
LCT_SIZE	**18.567**	18.643	1.321	**17.456**	17.679	0.342	<0.001	**18.302**	18.319	0.326
LOCL_FIRM1	**0.214**	0.000	0.402	**0.307**	0.216	0.410	0.328	**0.234**	18.319	0.442
LOCL_FIRM2	**0.318**	0.000	0.452	**0.214**	0.214	0.342	0.006	**0.243**	18.319	0.434
LOCL_FIRM3	**0.251**	0.000	0.342	**0.386**	0.386	0.325	0.184	**0.274**	18.319	0.418
LOCL_FIRM4	**0.223**	0.000	0.502	**0.242**	0.244	0.421	0.539	**0.241**	18.319	0.403

In Table 2, the paper presented the product of the Pearson correlation coefficients. Inter-firm affiliation indicators were found to be high and statistically significant. The correlations between the three proxies of auditor risk and CLIENT MISALIGNED were positive and significant. These were revealed in the values indicated between 30.8% and 32.6%. It can be concluded from this that there was a positive relationship between auditor-client misalignment and auditor exposure to riskier clients. This indicated that Hypotheses 4, 5, and 6 are supported.

Table 2: *Correlations*

	DEC_CP	MIS ALIGNED	EMR	FPR	LR	PRT_SIZE	LCT_SIZE	LOCL_FIRM1	LOCL_FIRM2	LOCL_FIRM3	LOCL_FIRM4
DEC_CP	**1.000**	-0.026	-0.048	0.064	-0.023	0.167	0.027	-0.021	-0.130	0.076	0.063
		0.212	0.046	0.034	<.0001	<.0001	0.267	0.432	<.0001	0.006	0.031
MISALIGNED	-0.034	**1.000**	0.224	0.223	0.352	-0.167	-0.104	-0.047	0.028	0.095	-0.086
	0.220		<.0001	<.0001	<.0001	<.0001	0.001	0.129	0.112	0.006	0.001
EMR	-0.048	0.221	**1.000**	0.124	0.201	-0.057	0.002	-0.067	0.043	-0.006	0.032
	0.046	<.0001		**<.0001**	<.0001	0.029	0.812	0.014	0.150	0.794	0.219
FPR	0.067	0.217	0.172	**1.000**	0.084	-0.064	0.032	0.011	-.001	0.062	-0.047
	0.016	<.0001	<.0001		0.018	0.092	0.438	0.865	0.860	0.185	0.083
LR	-0.023	0.246	0.307	0.804	**1.000**	-0.067	-0.021	-0.013	-0.006	0.112	0.021
	<.0001	<.0001	<.0001	0.011		0.016	0.423	<.0001	0.765	0.000	0.584
PRT_SIZE	0.179	-0.216	-0.026	-0.045	-0.086	**1.000**	0.202	-0.021	-0.074	-0.109	0.211
	<.0001	<.001	0.036	0.093	0.016		<.0001	0.674	0.003	0.000	<.0001
LCT_SIZE	0.042	-0.121	0.003	0.031	-0.032	0.302	**1.000**	-0.001	-0.012	-0.087	0.185
	0.241	0.001	0.816	0.432	0.483	<.0001		0.802	0.629	0.001	,0001
LOCL_FIRM1	-0.031	-0.043	-0.084	0.031	-0.142	-0.024	-0.004	**1.000**	-0.284	-0.421	-0.427
	0.451	0.126	0.014	0.731	<.0001	0.742	0.842		<.0001	<.0001	<.0001
LOCL_FIRM2	-0.147	0.045	0.033	-0.001	-0.006	-0.076	-0.021	-0.361	**1.000**	-0.374	-0.318
	<.0001	0.121	0.146	0.845	0.890	0.004	0.629	<.0001		<.0001	<.0001
LOCL_FIRM3	0.078	0.068	-0.004	0.034	0.112	-0.208	-0.087	-0.341	-0.276	**1.000**	-0.348
	0.006	0.003	0.875	0.156	0.000	0.000	0.001	<.0001	<.0001		<.0001
LOCL_FIRM4	0.047	-0.079	0.023	-0.049	0.021	0.318	0.128	-0.304	-0.384	-0.432	**1.000**
	0.026	0.001	0.231	0.075	0.754	<.0001	<.0001	<.0001	<.0001	<.0001	

Logistics Regression

In the final stage of the study, a logistics regression was performed to establish which of the factors had the greatest incidence on peak period portfolio restructuring amongst evaluated firms. In terms of the independent variables, the resulting values of the factorial analysis were gathered for each of the observations in the survey, according to the record of the statistical software (SPSS) during the study. A stepwise procedure was used to ensure the best selection of variables. Table 3 depicted the results of the probability of portfolio restructuring for each local office during the peak periods. Using the observations from the original sample (n = 836) in the estimation, the results indicated that the estimated regression coefficient for DEC_CP achieved a positive and significant status. This suggested that an increase in capability pressure led to the auditor-clients' portfolio restructuring during peak periods, supporting Hypothesis 2. The current study posited that this relationship may be the result of deficiency in quality monitoring of clients' interactions and marketing policies. Essentially, clients would switch between auditors where they perceived similar audit service quality could be obtained from other firms at reduced costs. The study also relayed this connection to the regulatory pronouncement of the Central Bank of Nigeria. According to the Bank's Prudential Guidelines for Deposit Money Banks, external auditor tenure shall be for

a maximum period of ten years from the date of the first appointment after which the firm shall not be reappointed in the bank until after another ten years. However, it was expected that the impact of this requirement on peak period portfolio restructuring would be insignificant, given that a larger proportion of banks in Nigeria are audited by the largest networks, which was not the focus of this study. However, the impact of accelerated filing requirement might be considerable. Hence the study augmented alternate clarifications to this finding in the robustness test.

Table 3: *Logistics Regression of the Probability of Portfolio Restructuring During the Peak Period in a Local Office*

Variable	*Predicted Sign*	*Coefficient Estimate*	*P-value*
Intercept	+	-4.167	<.0001
DEC_CP	+	0.894	0.004
MISALIGNED	+	0.682	0.079
EMR	+	2.304	0.089
FPR	+	0.168	0.007
LR	+	-0.021	0.896
PRT_SIZE	+	-1.212	<.0001
LCT_SIZE	+	1.324	<0001
LOCL_FIRM1	+	0.132	0.218
LOCL_FIRM2	+	0.208	0.173
LOCL_FIRM3	+	0.244	0.132
LOCL_FIRM4	+		0.103
YEAR	+		*(included)*

n = 237
Pseudo r2 = 43.67%
Chi2 = 231.74 (<.001)

P-values are based on robust standard errors obtained from the asymptotic covariance matrix.

Table 4: *Logistic Regression of a Net Decrease in the Size of the Peak Period Client Portfolio of a Local Office – Reduced Sample*

Variable	*Predicted Sign*	*Coefficient Estimate*	*P-value*
Intercept	+	-5.121	<.0001
DEC_CP	+	0.983	0.004
MISALIGNED	+	0.783	0.004
EMR	+	2.204	0.438
FPR	+	0.142	0.017
LR	+	-1.243	0.241
PRT_SIZE	+	-1.218	<.0001
LCT_SIZE	+	1.324	<.0001
LOCL_FIRM1	+	0.138	0.398
LOCL_FIRM2	+	0.241	0.217
LOCL_FIRM3	+	0.238	0.148
LOCL_FIRM4	+		0.145
YEAR	+		*(included)*

n = 176
Pseudo r2 = 46.37%
Chi2 = 197.31 (<.001)

P-values are based on robust standard errors obtained from the asymptotic covariance matrix. One-tailed p-values when signs are reported.

The likelihood of portfolio restructuring was higher when there was a higher level of auditor-client misalignment, earnings management risk, and financial risk. This was indicated in the estimated coefficients for these variables. The result of the logistics regression showed positive and significant estimated coefficients for MISALIGNED, EMR, and FPR, supporting Hypothesis 3. A similar result was obtained for litigation risk (LR). This was a substantial deviation from the findings of Lopez and Pitman (2013) that asserted that the estimated coefficient for LR was not significant amongst local offices of the Big-N-Firms in relation to the likelihood of changes to the busy season client portfolio. For the control variables, none of the firm affiliation indicators were statistically significant. However, the likelihood of portfolio restructuring among the firms during peak periods was significantly higher among offices with larger clients (CLS_SIZE), and office size (OFF_SIZE), supporting Hypothesis 1.

Reduced Sample Regression

For the purpose of understanding the distinctive bearing of capability pressure on portfolio management decisions of auditors beyond immediate variables such as service quality and marketing policies as identified earlier, a monopolistic effect on local offices of contracting peak period client portfolio restructuring (PORTF_RST_

DEC) was explored. Hence, the study eliminated the sample from expanding peak period client portfolio restructuring. Subsequently, PORTF_RST_DEC was defined as the dependent variable in the reduced sample regression. A value of 1 was implied for the negative difference between audit fees for the incoming December year-end clients. Outgoing December year-end clients was negative and 0 if otherwise. As a baseline condition, audit offices without portfolio restructuring during the peak periods were used as baseline condition. The result of the reduced sample regression was presented in Table 4, from which two fundamental variances were discovered. First, the control for expanding peak period client portfolio restructuring in the reduced sample regression revealed greater estimated regression coefficient for MISALIGNED. Also, that of EMR was no longer significant. This suggested that for contracting peak period portfolio restructuring in local firms, auditor-client misalignment became a weightier dynamic for portfolio management and the existence of variances in risk priorities amongst surveyed firms.

Robustness Test

The effect of identifiable extraneous variables was captured with a robustness test. The study developed two alternative variations of the PORT_RST variable: the log of net changes in audit fees from restructured clients in the portfolio, and the log of net changes in the restructured portfolio. To ensure that the significance and interpretation of the regression results remained unchanged, insignificant clients' portfolio restructuring set at less than 10% was also eliminated. To account for client-motivated restructuring, an alternative to the original regression model was established using an alternate PORT_RST wherein 1 indicated a situation of portfolio restructuring resulting from client-motivated dismissals, and 0 if caused by other factors. The regression remained significant and in the expected direction. The study also recognized the possibility of significant changes in continuing clients' operations such as technology, merger/amalgamation, acquisitions and takeovers, and divestiture which could affect the workload compression of the auditor. This is an instance where the auditor made no portfolio restructuring. As such, the paper addressed this concern using the estimation of an OLS version of the regression model and percentage of portfolio restructuring as the dependent variable. The result of the robustness test conducted along this line remained positive and significant. The study reflected the probability of the influence of local offices with a peak period other than December creating a bias for the result. Therefore, the outcome added an indicator to the main regression model identifying local offices without December as the peak period and eliminated them from the sample in order to investigate whether the results were robust for this condition. The study found that none of the tests altered the interpretation of the estimated coefficients for the independent variables. After adjusting for January year-end companies in auditor portfolios, an additional robustness check was conducted and found that the result interpretations remain unchanged. However, the use of a reduced sample under the robustness test indicated that some of the estimated coefficients for the audit risk factors increased.

Conclusions

Large global accounting networks emerged in response to the demands of

multinational companies which required their auditors to have similar global reach and consistent audit expertise around the world. Over the years, these networks have invested substantially in harnessing the necessary tools and skills to meet the market demands for high quality audits. Subsequently, the large networks competed intensely with industry expertise, innovation, quality, and cost resulting in their dominance in most economies. A larger proportion of extant audit literature focused on markets that included and were dominated by Big-N audit firms providing audit services to the largest, most complex organizations, with significant neglect of the Non-Big-N audit firms. This study represented and attempted to provide a particularly interesting and rich empirical investigation in which the emergence of other groups of audit firms in an increasingly competitive market were examined. The study's model considered the local offices of medium-sized audit firms as the unit of analysis. Adapting measures validated in earlier studies, a model was developed that directly described all variables affecting portfolio structuring in an auditor-client environment during the peak periods. Using a sample of 237 local office-year observations between 2007 and 2011 among medium-sized audit firms in Nigeria, evidence of a positive association between capability pressure and the likelihood of portfolio restructuring in the local office of medium-size audit firms was found. The results lended credibility to the implication of capability pressure characterized by the December year-end effect of assurance providers. This position was consistent with earlier studies on portfolio management decisions of the external auditors (Lopez & Pitman, 2013) which studied the Big-N-firms using similar variables.

The effects of other extraneous variables were eliminated and a robustness test conducted which substantiated the interpretation of the estimated coefficients for the independent variables identified in the study. Evidence was found of a direct positive relationship between auditor-client misalignment and the possibility of portfolio restructuring. Furthermore, the probability of the influence of local offices with peak periods consisting of clients with year-end other than December created a bias for the result. Therefore an indicator was added to the main regression model identifying offices without December as their peak period and eliminated them from the sample in order to investigate whether the results were robust for this condition. The study found that none of the tests altered the interpretation of the estimated coefficients for the independent variables.

This study did not delineate between second-tier and other mid-sized audit firms within the population. The sample only included local offices in Lagos, the commercial nerve center in Nigeria. Hence, there may be induced substantial variation in the subjects' behavior within replications of market treatments which could limit the interpretation of the results. Additional research is encouraged that investigates the effect of workload compression on audit fees, as well as on audit quality in developing economies. In particular, empirical research on the impact of adjustment on the tenure of external auditors on deposit money banks in Nigeria on auditor switches will be significant at this stage, given the volatility of the financial services industry in Nigeria. Future research that considers sector and industry peculiarity, industry concentration of audit firms, and the effects of reliance on corporate reporting may benefit from the model developed herein.

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