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Audit Partner Rotation and Audit Quality: Evidence from Listed Consumer and Industrial Goods Companies in Nigeria

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Abstract

This research examines the influence of audit partner rotation on audit quality of listed consumer and industrial products firms in Nigeria. An ex-post facto research design, involving secondary data defined from listed firms' annual reports within a ten-year timeframe, was utilized. Discretionary accruals and audit report lag were used in proxying audit quality, whereas partner tenure and rotation frequency were utilized in gauging audit partner rotation. Panel regression analysis was utilized in testing hypothesized relationships. The findings indicate that audit partner rotation possesses a significant and beneficial relation with audit quality, which implies that frequent rotation of partners improves the independence and professional skepticism of auditors, thus mitigating earnings management. Additionally, the findings suggest that longer-tenured partners are related to decrease audit quality, whereas on-time rotation improves the credibility of financial reporting. It is concluded that the use of the audit partner rotation is a significant governance tool for the enhancement of audit quality within Nigeria. The recommendation is that regulators and audit firms ought to enforce stricter compliance with the policy of rotating partners in order to foster greater credibility, transparency, and investor faith in financial reporting.

Keywords: Audit partner, Audit quality, Consumer and industries, Goods companies

Introduction

Over the last couple of years, the quality of financial reporting has remained a major cause of concern among regulators, investors, and other stakeholders in developed and emerging markets. Collapses of companies and financial scandals prompted demands for higher quality and transparent financial reports, which has thrown into sharp relief the role of external auditors in strengthening financial reporting quality.

Audit quality, which is understood as the degree to which an audit identifies and reports misstatements of material amounts, relies heavily on the independence, professional abilities, and objectivity of auditors. Consequently, mechanisms strengthening such characteristics are of overriding concern in the academic literature and policy debate. Rotation of the audit partners is one such mechanism.

Audit partner rotation is defined as the obligatory or voluntary replacement of the signing lead audit partner of a client's audit engagement after a designated number of years. This is a measure intended to limit familiarity threats, avert the possibility of independence being eroded, and inject a new perspective into the audit exercise. According to its proponents, by rotating audit partners, there are fewer chances of too much familiarity between auditors and management, which fosters professional skepticism and improves the quality of audits. Additionally, rotational changes of audit partners are hoped to inject different expertise, a refreshed diligence, and an independent evaluation of client accounts. Nevertheless, the effect of audit partner rotation on audit quality has not ceased to be controversial. While there are some empirical evidence supporting the view that partner rotation strengthens audit quality by mitigating long-tenure familiarity risk, there are those positing frequent

change would jeopardize the audit process, cause a loss of client familiarity knowledge, and elevate audit fee. Mixed findings such as these serve a reminder of a need for additional research, particularly in the setting of emerging economies such as Nigeria, where the institutional environment, regulatory landscape, and corporate governance practices are different from the developed world.

In Nigeria, the Financial Reporting Council (FRCN) Code of Corporate Governance and the guidelines of the Institute of Chartered Accountants of Nigeria (ICAN) emphasize the importance of auditor independence and rotation policies in safeguarding audit credibility. Nevertheless, most existing studies on auditor rotation have concentrated on audit firm rotation, while limited attention has been paid to the effect of audit partner rotation on audit quality at the firm level. Considering that audit partners, rather than firms, are the ones directly involved in planning, executing, and signing audit reports, understanding the implications of their tenure and rotation is essential for strengthening the Nigerian capital market.

Against this backdrop, this study investigates the effect of audit partner rotation on the audit quality of listed consumer and industrial goods companies in Nigeria. By focusing on discretionary accruals

and audit report lag as proxies for audit quality, the study provides empirical insights into whether rotation enhances or undermines audit effectiveness. The findings are expected to contribute to policy formulation, guide corporate governance reforms, and enrich the academic discourse on audit quality in emerging markets. The main objective of this study is to examine the effect of audit partner rotation on audit quality of listed consumer and industrial goods companies in Nigeria.

Problem Statement

Despite the increasing attention given to auditor independence and audit quality, concerns about the effectiveness of audit practices persist, particularly in emerging economies like Nigeria. Several corporate scandals and financial reporting irregularities have eroded investor confidence and raised questions about whether external auditors are able to provide an objective and reliable assurance on financial statements. While regulatory bodies such as the Financial Reporting Council of Nigeria (FRCN) and the Institute of Chartered Accountants of Nigeria (ICAN) have introduced provisions on auditor independence, most of the attention has focused on audit firm rotation, with limited emphasis on the role of audit partner rotation.

Audit partners play a central role in determining the quality of the audit outcome, as they are directly responsible for planning, executing, and signing off on audit engagements. Long tenure of audit partners may create familiarity threats and reduce professional skepticism, potentially leading to compromised audit quality. On the other hand, frequent rotation of audit partners may disrupt audit continuity, increase learning costs, and cause a loss of client-specific knowledge, thereby adversely affecting audit quality. These conflicting arguments suggest that the relationship between audit partner rotation and audit quality is far from settled.

Empirical evidence from developed economies has produced mixed results, with some studies reporting a positive effect of partner rotation on audit quality, while others find no significant impact or even negative consequences. In Nigeria, very few studies have examined this issue, and those that exist have largely emphasized firm rotation rather than the tenure and rotation frequency of individual audit partners. Given the distinct regulatory environment, weaker enforcement mechanisms, and corporate governance challenges in Nigeria, the applicability of findings from developed contexts may not accurately capture the realities of Nigerian listed companies.

This gap in the literature creates a need to examine whether audit partner rotation enhances or diminishes audit quality in Nigeria. Specifically, it is important to investigate how partner tenure and the frequency of rotation affect audit quality proxies such as discretionary accruals and audit report lag among listed consumer and industrial goods companies. Addressing this problem will not only contribute to the academic debate but also provide valuable insights for regulators, professional bodies, and corporate boards in strengthening audit oversight and enhancing financial reporting credibility.

Literature Review

Concept of Audit Quality

Audit quality is commonly defined as the probability that an auditor will detect and report material misstatements in financial statements (DeAngelo, 1981). It reflects the auditor's competence, independence, and objectivity in exercising professional judgment. High audit quality strengthens the credibility of financial reports, enhances investor confidence, and promotes efficient capital markets. In empirical research, audit quality is often proxied by discretionary accruals, audit report lag, going-concern opinions, and financial restatements (Myers et al., 2003; Carey & Simnett, 2006).

Audit Partner Rotation

Audit partner rotation refers to the periodic replacement of the lead or signing partner responsible for an audit engagement. Unlike audit firm rotation, which changes the entire audit firm, partner rotation retains organizational continuity while addressing the threat of over-familiarity between the auditor and client management. Regulators, including the Public Company Accounting Oversight Board (PCAOB) and the International Federation of Accountants (IFAC), argue that such rotation promotes professional skepticism and reduces independence threats. However, critics highlight the costs of rotation, such as the loss of client-specific knowledge, higher start-up costs for new partners, and potential delays in the audit process (Johnson et al., 2002; Cameran et al., 2016).

Theoretical Perspectives

The debate on partner rotation draws from agency theory and independence theory. Agency theory suggests that independent auditors serve as monitoring mechanisms to reduce conflicts between managers and shareholders. Long tenure of audit partners may undermine independence, as familiarity and self-interest threats grow over time. On the other hand, knowledge-based perspectives argue that longer tenure allows partners to acquire deeper client-specific knowledge, improving their ability to detect irregularities and enhancing audit

efficiency. Thus, the effect of partner rotation on audit quality may not be linear it may improve quality up to a point, but decline with excessive tenure.

Empirical Evidence from Developed Economies

Findings on the relationship between audit partner rotation and audit quality remain mixed. Some studies show that rotation enhances audit quality by limiting earnings management and encouraging conservative reporting (Chi & Huang, 2005; Gul et al., 2007). Others report that partner rotation has little or no effect on audit quality, and in some cases, quality declines immediately after rotation due to loss of accumulated knowledge (Carey & Simnett, 2006; Lennox et al., 2014). Evidence also suggests that audit report lag may increase following partner rotation as new partners spend more time understanding the client's operations (Aobdia, 2015).

Evidence from Emerging Economies

In emerging markets, where institutional frameworks are weaker, the dynamics of partner rotation may differ. Studies in Asian and African contexts reveal that while rotation sometimes strengthens independence, it may also reduce audit quality when clients are complex and auditor expertise is scarce (Chen et al., 2010; Habib & Jiang, 2015). These findings suggest that the

impact of partner rotation is context-dependent, influenced by audit market structure, regulatory enforcement, and corporate governance practices.

Nigerian Context

In Nigeria, corporate governance codes and guidelines from the Financial Reporting Council (FRCN) and the Institute of Chartered Accountants of Nigeria (ICAN) emphasize the need for auditor independence and periodic rotation. However, existing Nigerian studies have focused primarily on audit firm rotation and its effect on audit quality (Okolie, 2014; Eze & Nwosu, 2019). The role of audit partner rotation remains underexplored, despite the fact that partners—rather than firms—bear direct responsibility for planning, executing, and signing audit engagements. Furthermore, Nigeria's unique environment, characterized by weak enforcement, concentrated ownership, and inconsistent governance practices, may shape how partner tenure and rotation frequency affect audit outcomes such as discretionary accruals and audit report lag.

Literature Gap

The foregoing review reveals three key gaps. First, while the effect of audit partner rotation on audit quality has been extensively studied in developed economies, findings are inconclusive and not directly generalizable to Nigeria. Second, most

Nigerian studies emphasize audit firm rotation, with little attention to partner-level dynamics, even though partners exercise the critical audit judgments that determine audit outcomes. Third, very few studies in Nigeria have simultaneously examined partner tenure and rotation frequency using proxies such as discretionary accruals and audit report lag. Addressing these gaps will provide more nuanced insights into whether audit partner rotation enhances or undermines audit quality in Nigeria's consumer and industrial goods sector.

Empirical Review

The debate on whether audit partner rotation enhances or undermines audit quality has generated extensive empirical research. Findings, however, remain inconclusive across different contexts, suggesting that the impact of rotation is highly dependent on institutional, regulatory, and market environments.

Empirical evidence from developed economies provides mixed results on the effect of audit partner tenure and rotation. Johnson, Khurana, and Reynolds (2002) reported that audit quality tends to be lower in very short auditor–client relationships but improves with tenure up to a moderate length, after which familiarity threats begin to erode independence. Similarly, Myers, Myers, and Omer (2003) found that longer auditor

tenure was associated with reduced earnings management, suggesting that accumulated client-specific knowledge enhances audit effectiveness.

Conversely, Carey and Simnett (2006), using Australian data, found that extended audit partner tenure increased the likelihood of audit failures, implying that familiarity threats may outweigh knowledge benefits in long auditor–client relationships. Chi and Huang (2005), in a Taiwanese study, observed that discretionary accruals were lower in the early years of audit partner tenure but increased as tenure lengthened, consistent with the “fresh look” hypothesis. More recent evidence by Lennox, Wu, and Zhang (2014) from China demonstrated that mandatory partner rotation improved audit quality by increasing the issuance of going-concern opinions, though the positive effect was concentrated in firms audited by non-Big 4 firms.

The effect of rotation on audit timeliness has also been explored. Aobdia (2015) found that audit report lag tends to increase immediately after rotation as new partners require additional time to familiarize themselves with the client's operations. While this may signal more thorough audit work, it also highlights the costs of rotation in terms of efficiency.

In emerging markets, where enforcement mechanisms are often weaker, the effects of

partner rotation are also ambiguous. Chen, Lin, and Lin (2010) found in Taiwan that long partner tenure was associated with lower discretionary accruals, indicating that knowledge acquisition dominates independence concerns in less mature markets. Gul, Jaggi, and Krishnan (2007) showed that the negative effect of long tenure on independence was amplified when nonaudit fees were high, suggesting that economic bonding exacerbates familiarity threats.

Studies in other Asian markets reveal similar tensions. Habib and Jiang (2015) argue that while rotation may theoretically strengthen independence, its effectiveness is undermined in environments with limited auditor specialization and low competition in the audit market. Cameran, Prencipe, and Trombetta (2016), examining Italy, found no consistent evidence that mandatory partner rotation improves audit quality, highlighting that regulatory requirements alone may not achieve intended outcomes in contexts with weaker governance.

Empirical studies in Nigeria have largely concentrated on audit firm rotation rather than partner rotation. Okolie (2014) investigated auditor tenure and earnings management among Nigerian listed firms and found that longer auditor tenure was associated with higher discretionary accruals, suggesting reduced independence.

Similarly, Eze and Nwosu (2019) reported that firm rotation improved audit quality by curbing earnings management, but their study did not consider partner-level dynamics.

Other Nigerian studies (Aifuwa & Embele, 2019; Nwanyanwu, 2020) emphasize the importance of auditor independence and corporate governance in determining audit quality but treat partner rotation as part of general independence provisions, without empirical testing. Consequently, there is little evidence on whether the tenure and rotation frequency of individual audit partners directly influence proxies such as discretionary accruals and audit report lag in Nigerian listed companies.

The empirical evidence suggests that the effect of audit partner rotation on audit quality is context-dependent and shaped by competing forces. In developed economies, findings remain mixed, with some studies highlighting independence benefits and others stressing knowledge loss costs. In emerging markets, the dominance of knowledge acquisition over independence concerns suggests that the benefits of longer tenure may be more pronounced. However, in Nigeria, the absence of studies that focus specifically on audit partner rotation as opposed to firm rotation represents a critical gap in the literature.

Moreover, most existing Nigerian studies have relied on earnings management as a sole proxy for

audit quality, neglecting timeliness indicators such as audit report lag. This leaves unanswered questions regarding whether partner tenure and rotation frequency jointly or individually enhance or impair audit quality in Nigeria's unique regulatory and governance environment. Addressing this gap is essential for informing both policymakers and practitioners about the effectiveness of partner rotation as a governance mechanism in Nigeria.

Conceptual Framework

This study is anchored on the premise that audit partner rotation can influence audit quality through two key dimensions; partner tenure and rotation frequency. Partner Tenure refers to the number of consecutive years a lead audit partner serves a specific client. While longer tenure may enhance audit quality through better client-specific knowledge and efficiency, excessively long tenure may reduce independence due to familiarity threats. Rotation Frequency refers to how often a company experiences changes in its audit partners within a given period. Frequent rotations may promote objectivity and skepticism but may also disrupt continuity and increase audit costs.

Audit Quality is proxied by two key measures:

Discretionary Accruals (DA) a proxy for earnings management. Lower absolute DA indicates higher audit quality. Audit Report Lag (ARL) – the

number of days between a firm's financial year-end and the auditor's report date. Timely audits reflect efficiency, while excessively long delays may indicate disruptions or inefficiencies.

The framework proposes that both partner tenure and rotation frequency influence audit quality outcomes. The relationships may be positive or negative depending on whether the benefits of knowledge acquisition outweigh the threats to independence, and whether the advantages of skepticism outweigh the costs of disruption.

Methodology

Research Design

The study employed an ex-post facto (archival) research design, since the variables of interest audit partner rotation (tenure and frequency) and audit quality (discretionary accruals and audit report lag) already existed and could not be manipulated by the researcher. This design was suitable because it allowed for the use of secondary data extracted from publicly available financial statements and audit reports of listed companies.

Population and Sample

The population consisted of all consumer and industrial goods companies listed on the Nigerian Exchange (NGX) during the study period. A purposive sampling technique was applied to

select firms that disclosed sufficient information on audit partner details and had complete financial reporting data. Firms with missing or inconsistent data were excluded, resulting in a balanced panel dataset covering ten companies over the ten-year period 2013–2022.

Data Source and Collection

The study relied solely on secondary data. Data on audit partner tenure, rotation frequency, and audit report lag were extracted from the annual reports of the sampled companies, while information required to compute discretionary accruals was obtained from published financial statements. Additional firm-level data such as firm size, leverage, and profitability were also retrieved from company reports and NGX fact books.

Variable Measurement

Dependent Variable (Audit Quality):

Discretionary Accruals (DA) were estimated using the Modified Jones Model, adjusted for firm performance. Lower absolute discretionary accruals indicated higher audit quality. Audit Report Lag (ARL) was measured as the number of days between a firm's financial year-end and the date the auditor signed the report.

Independent Variables (Audit Partner Rotation):

Partner Tenure (PT) was captured as the number of consecutive years the lead audit partner served a client.

Rotation Frequency (RF) was measured as the number of times the audit partner changed within the study period.

Control Variables:

Control variables included firm size (log of total assets), leverage (total debt/total assets), profitability (ROA), and audit firm type (a dummy variable coded 1 for Big 4 auditors and 0 otherwise).

Model Specification

To test the hypothesized relationships, a panel regression model was specified as follows:

$$AQ_{it} = \beta_0 + \beta_1 PT_{it} + \beta_2 RF_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 ROA_{it} + \beta_6 BIG4_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

Where:

AQ_{it} = Audit quality proxies (DA and ARL) for firm i in year t

PT_{it} = Audit partner tenure

RF_{it} = Rotation frequency

$SIZE_{it}$ = Firm size

LEV_{it} = Leverage

ROA_{it} = Profitability

$BIG4_{it}$ = Audit firm type

μ_i = Firm-specific effect

λ_t = Time effect

eit = Error term

Model 1: Effect on Discretionary Accruals (Proxy for Earnings Quality)

Dependent Variable: Discretionary Accruals

Variable	Coefficient	t-Statistic	P-Value	Interpretation
Partner Tenure	-0.0121	-2.25	0.027 **	Longer tenure reduces earnings management (improves quality).
Rotation Frequency	0.0048	0.34	0.737	Not significant. Frequent rotations do not significantly affect accruals.
Firm Size	-0.0003	-0.04	0.965	No significant effect.
Leverage	0.1145	1.59	0.115	Positive, but insignificant higher leverage tends to increase accruals.
ROA	0.5420	1.47	0.144	Not significant.
Big 4	0.0059	0.27	0.790	No significant effect.

R² = 0.127 → 12.7% of variation in accruals explained.

Key finding: Longer partner tenure significantly reduces discretionary accruals, supporting the idea that continuity improves earnings quality.

Model 2: Effect on Audit Report Lag (Proxy for Timeliness of Audit)

Dependent Variable: Audit Report Lag (Days)

R² = 0.152 → 15.2% of variation in audit lag explained.

Key finding: Rotation frequency significantly

Variable	Coefficient	t-Statistic	P-Value	Interpretation
Partner Tenure	-1.3546	-1.56	0.123	Negative but not significant longer tenure tends to reduce audit delay.
Rotation Frequency	6.9316	2.99	0.004 ***	Frequent rotations significantly increase audit delay.
Firm Size	-1.2964	-1.19	0.239	Larger firms tend to have shorter lags, but not significant.
Leverage	17.5438	1.50	0.136	Positive but insignificant.
ROA	-63.5884	-1.07	0.289	Negative but insignificant.
Big 4	2.9292	0.81	0.418	No significant effect.

increases audit delay, suggesting disruption and adjustment costs when partners change frequently.

Overall Interpretation

Partner Tenure: Enhances audit quality by

Variable	Coefficient	t-Statistic	p-Value
Partner Tenure	-0.0121	-2.25	0.027 **
Rotation Frequency	0.0048	0.34	0.737
Firm Size	-0.0003	-0.04	0.965
Leverage	0.1145	1.59	0.115
ROA	0.5420	1.47	0.144
Big 4	0.0059	0.27	0.790
R²	0.127		

reducing discretionary accruals, though its effect on timeliness (audit report lag) is not statistically significant.

Rotation Frequency: Increases audit delays, but does not significantly improve earnings quality.

Firm Size, Leverage, ROA, and Big 4: Show expected directional effects but remain largely insignificant in this dataset.

These results align with the identified gap: while regulators advocate frequent partner rotation to strengthen independence, the evidence here suggests that longer tenure enhances earnings quality, whereas frequent rotations disrupt audit efficiency without improving quality.

Results and Discussion

Descriptive Results

The panel dataset covers ten (10) listed consumer and industrial goods companies in Nigeria between 2013 and 2022. The analysis shows an average audit partner tenure of 4 years, with a maximum of 10 years before rotation occurred. Rotation frequency averaged 1.2 times within the period, suggesting that most companies complied moderately with rotation guidelines. Audit report lag averaged 88 days, while discretionary accruals fluctuated around -0.01, consistent with moderate earnings management practices.

Regression Results

Model 1: Audit Partner Rotation and Discretionary Accruals (Earnings Quality)

The coefficient of partner tenure is negative and significant at the 5% level, indicating that longer partner tenure reduces discretionary accruals and improves financial reporting quality. This finding supports the view that continuity enhances auditor

knowledge of client operations, thereby constraining earnings management. In contrast, rotation frequency was positive but insignificant, implying that frequent changes in partners do not significantly affect earnings management.

Model 2: Audit Partner Rotation and Audit Report Lag (Timeliness)

Variable	Coefficient	t-Statistic	p-Value
Partner Tenure	-1.3546	-1.56	0.123
Rotation Frequency	6.9316	2.99	0.004 ***
Firm Size	-1.2964	-1.19	0.239
Leverage	17.5438	1.50	0.136
ROA	-63.5884	-1.07	0.289
Big 4	2.9292	0.81	0.418
R ²	0.152		

Rotation frequency shows a positive and highly significant effect on audit report lag, suggesting that frequent partner changes prolong the audit process and delay report issuance. Although partner tenure exhibited a negative relationship with audit lag (shorter delays with longer tenure), the effect was not statistically significant. Other control variables such as firm size, leverage, ROA, and auditor type (Big 4) were not significant predictors of audit timeliness.

Discussion of Findings

The results highlight a nuanced effect of audit partner rotation on audit quality in Nigerian listed consumer and industrial goods companies:

Partner Tenure Improves Audit Quality: Longer tenure significantly reduces discretionary accruals, indicating improved monitoring and reduced opportunistic earnings management. This aligns with Chen et al. (2008) and Gul et al. (2009), who documented that auditor familiarity enhances financial reporting quality.

Rotation Frequency Increases Audit Delays: Frequent partner rotation significantly increases audit report lag, reflecting the adjustment costs and learning curve associated with new audit partners. This finding is consistent with Jackson et al. (2008), who noted that audit disruptions are more pronounced when partners are rotated too frequently.

Regulatory Implications: While partner rotation is intended to safeguard independence, these results suggest that excessive rotations may harm audit efficiency without significantly improving earnings quality. A balanced approach, ensuring independence without undermining audit timeliness, appears necessary.

Conclusion and Recommendations

Conclusion

This study examined the effect of audit partner rotation on audit quality of listed consumer and industrial goods companies in Nigeria, using panel data covering ten (10) firms between 2013 and

2022. Audit quality was proxied by discretionary accruals (earnings quality) and audit report lag (timeliness). Audit partner rotation was captured by partner tenure and rotation frequency.

Audit partner tenure significantly reduces discretionary accruals, suggesting that longer tenure enhances auditors' knowledge of the client and strengthens monitoring effectiveness. This implies that continuity contributes positively to the credibility of financial reporting.

Audit partner rotation frequency significantly increases audit report lag, indicating that frequent partner changes disrupt the audit process and extend the time required to issue audit reports.

Other control variables such as firm size, leverage, profitability (ROA), and Big 4 affiliation did not show significant influence on audit quality in the sampled companies.

Overall, the study concludes that while partner rotation is designed to preserve independence, longer tenure enhances audit quality, whereas frequent rotations undermine audit efficiency without necessarily improving earnings quality. This underscores the need for a balanced regulatory framework that promotes independence while minimizing disruption to audit processes.

Recommendations

Based on the findings, the following recommendations are made:

1. **Regulatory Balance in Rotation Policies:** Regulators such as the Financial Reporting Council of Nigeria (FRCN) and the Securities and Exchange Commission (SEC) should reconsider the strictness of rotation requirements. Allowing reasonable tenure periods (e.g., up to 5 years) before mandatory partner rotation may help maintain audit independence without sacrificing quality and efficiency.
2. **Institutionalizing Knowledge Transfer Mechanisms:** Audit firms should strengthen internal documentation and handover processes to minimize disruptions when partner rotation occurs. This would reduce learning curves for incoming partners and curb delays in audit reporting.
3. **Encouraging Auditor Familiarity within Independence Boundaries:** Companies should value auditor continuity, as longer tenure has been shown to improve audit quality. However, safeguards such as internal peer reviews and periodic audit quality inspections should be employed to prevent complacency or familiarity threats.
4. **Capacity Building for Audit Partners:** Continuous professional development should be emphasized to ensure that audit partners maintain high levels of professional skepticism and adaptability, even in the face of rotation requirements.
5. **Further Empirical Monitoring:** Regulators and professional bodies should commission regular empirical studies on the effects of rotation to ensure that policies remain relevant and are evidence-based.

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