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Moderating Effect of Audit Committee Expertise on the Relationship between Auditor Independence and Audit Quality of Listed Companies in Nigeria

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Abstract

This study explores the moderating role of audit committee expertise on the relationship between auditor independence and audit quality in Nigerian listed companies. Panel data from 114 firms covering 2015–2024 were analyzed using descriptive statistics, correlation, and multiple regression techniques. Findings indicate that audit quality varied moderately across firms, while correlation results revealed a significant positive association between auditor independence and audit quality. Regression analysis confirmed that auditor independence has a strong and positive influence on audit quality, reinforcing its importance in enhancing financial reporting credibility. However, the interaction between auditor independence and audit committee expertise ($AUI \times ACE$) was negative and statistically insignificant, suggesting that audit committee expertise does not alter the effect of auditor independence. The study concludes that while auditor independence remains essential, audit committee expertise provides minimal complementary benefits. Enhanced collaboration and oversight are recommended to strengthen corporate governance practices in Nigeria.

Keywords: Auditor independence, Audit committee expertise, Audit quality, corporate governance, Nigeria

1.0 Introduction

Audit quality has become a critical area of concern in both developed and emerging economies, as stakeholders increasingly question the reliability of financial statements audited by external auditors. In recent years, the erosion of confidence in audit quality and auditor independence has had profound implications for corporate governance, investor confidence, and economic growth. This is particularly significant in emerging markets, where weak governance structures and limited regulatory enforcement can exacerbate the risks of financial misreporting and fraud.

Nigeria, as one of Africa's largest economies, faces particular challenges in ensuring that audits are performed with the highest standards of integrity and independence.

Audit quality is fundamental to maintaining the credibility of financial reporting and is central to the proper functioning of capital markets. Auditors are entrusted with providing independent assurance on the accuracy and fairness of financial statements, which, in turn, affects investors' decisions and economic stability. The integrity of financial reporting is fundamental to effective corporate governance and economic stability. Auditors are responsible for providing independent assurance of the accuracy and reliability of financial statements. However, widespread corporate failures, financial scandals, and economic crises worldwide have exposed deficiencies in audit quality, sparking scrutiny of factors such as audit firm characteristics and audit committee expertise.

Globally, the audit profession's reputation has been tarnished by high-profile corporate collapses resulting from poor audit quality. The Enron (2001) and WorldCom (2002) scandals in the United States highlighted critical shortcomings, including auditor complacency, lack of independence, and failure to detect fraudulent practices. These failures, compounded by the complicity of Arthur Andersen,

led to the firm's dissolution and prompted regulatory responses like the Sarbanes-Oxley Act (2002). More recently, the Wirecard scandal (2020) in Germany revealed systemic vulnerabilities in audit practices. Ernst & Young failed to detect a \$2 billion accounting fraud over several years, raising concerns about auditors' independence and skepticism. These incidents emphasize the persistent challenges to audit quality and their implications for corporate governance and investor confidence.

In Africa, poor audit quality has also resulted in severe consequences. For instance, the Steinhoff International scandal (2017) in South Africa exposed fraudulent accounting practices that inflated profits by over \$7 billion. KPMG, Steinhoff's auditor, faced reputational damage due to its inability to detect these irregularities, prompting client withdrawals and internal restructuring. Similarly, the collapse of several Tanzanian banks in 2019, caused by undisclosed non-performing loans and misrepresentation of financial health, further underscores the adverse impact of poor audit quality on financial stability. These cases highlight how audit firm characteristics such as the type of audit firms engaged by the client, the type of the audit firm, prolonged audit firm tenure, inadequate engagement partner

rotation, and lack of audit independence can impair audit quality.

Nigeria has also experienced significant corporate scandals linked to poor audit quality, which have eroded investor confidence and hindered economic growth. Notable cases include the Cadbury Nigeria Plc scandal (2006), where financial statements were overstated by over ₦13 billion, and the Oceanic Bank and Intercontinental Bank crises (2009), which exposed fraudulent practices overlooked by auditors.

This study investigates the moderating effect of audit committee expertise on the relationship between audit firm characteristics and audit quality in listed Nigerian companies. By exploring this dynamic, the research identifies how audit committee expertise can mitigate the adverse effects of poor audit firm practices and improve the credibility of financial reporting.

2.0 LITERATURE REVIEW

2.1 Concept of Audit Quality

Audit quality refers to the reliability of financial information provided to investors, ensuring that it is free from material misstatements. This concept is often employed to evaluate the level of bias present in audited financial statements. According to Emeka-Nwokeji (2022), high-quality audits are conducted by independent auditors who comply with established auditing standards, thereby

ensuring that clients adhere to necessary reporting protocols and minimizing the risk of financial statement manipulation. An audit is considered high quality when it meets generally accepted auditing standards and is capable of identifying and reporting material misstatements.

Despite the frequent discussion surrounding audit quality, a universally accepted definition remains elusive due to its multifaceted nature and differing perspectives among stakeholders. Broadly, audit quality can be understood as the degree to which an audit complies with professional standards and meets the expectations of users, auditors, regulators, and society. High audit quality guarantees that financial statements are free from material misstatements, enhancing the reliability and credibility of financial reports (Yuyarai Ganesan, 2024).

DeAngelo's (1981) foundational definition frames audit quality as the market-assessed joint probability that an auditor has both detected and reported breaches in the client's accounting system. This definition underscores two essential factors: auditor competence, which relates to the auditor's ability to identify accounting violations, and independence, which is the ability to report these violations without undue client influence. Similar views are echoed by Amahalu, Okeke, and Obi (2017), who stress that audit quality depends on the

auditor's technical skill and objectivity. DeAngelo (2023) revisits her earlier definition, stating that "audit quality is a function of the auditor's ability to detect and report misstatements in financial statements, influenced by the auditor's independence and competence." This highlights the pivotal roles that independence and technical skills play in determining audit quality.

These definitions collectively indicate a consensus among researchers about the multifaceted nature of audit quality, encompassing both the processes involved and the outcomes achieved. Knechel et al. (2022) defines audit quality as "the degree to which an audit enhances the reliability of financial reporting and the extent to which the audit process is perceived to be competent and independent." This definition highlights both the output (reliability of financial statements) and the process (competence and independence) aspects of audit quality.

Stakeholder perspectives on audit quality further diversify its interpretation. Users of financial statements typically associate high audit quality with the absence of material misstatements. For auditors, it involves conducting the audit in line with their firm's methodology and professional standards. Audit firms may evaluate quality based on whether their work can withstand scrutiny during legal or regulatory reviews, while regulators

focus on compliance with auditing standards. Society may define audit quality as the ability to prevent corporate failures that could disrupt the economy (Knechel et al., 2013).

Several frameworks provide structured approaches to understanding audit quality. The International Federation of Accountants (IFAC) and the International Auditing and Assurance Standards Board (IAASB) emphasize the importance of professional standards, legal requirements, and adherence to auditing methodologies in defining audit quality (IFAC, 2009; IAASB, 2010). The IAASB's framework highlights input, process, and output factors at both engagement and national levels, linking audit quality to professional skepticism, competence, and ethics. These ideas are reflected in definitions provided by organizations such as the Public Company Accounting Oversight Board (PCAOB, 2015) and the Australian Public Policy Committee (2014), which connect audit quality to meeting investor needs through robust audit processes.

Audit quality can also be assessed through various proxies. Input-based measures may include auditor-specific characteristics like firm size (e.g., whether the auditor is part of the Big 4), audit fees, and the ratio of audit to non-audit fees (DeFond & Zhang, 2014). Big 4 firms are generally assumed to deliver higher audit quality due to their greater resources,

training, and reputational risks. Output-based measures can involve material restatements, SEC Accounting and Auditing Enforcement Releases (AAERs), and going-concern opinions, which provide insights into whether auditors effectively identified and reported misstatements. However, these measures typically capture only extreme cases of audit failure (DeFond & Zhang, 2014).

Furthermore, audit quality is perceived differently depending on the stakeholder's viewpoint. Users of financial statements (e.g., investors) often equate high-quality audits with the absence of material misstatements (Knechel et al., 2013). For auditors, it involves satisfactorily completing the audit process according to audit methodology, while regulators evaluate it through compliance with auditing standards. For society, audit quality is connected to broader economic implications, such as the prevention of corporate failures or market disruptions (Enofe *et al.*, 2013).

Therefore, the distinction between actual and perceived audit quality is also significant. Actual audit quality pertains to how effectively an audit detects and reports misstatements, while perceived quality reflects stakeholders' views on the audit's effectiveness. Jackson, Moldrich, and Roebuck (2008) illustrate that perceived quality influences users' confidence in financial statements, whereas actual quality focuses on minimizing material

errors and misstatements. This distinction is critical, as the reputation of audit firms, particularly Big-4 firms, influences perceived quality.

Audit quality has gained heightened attention in recent years due to various developments and debates surrounding its significance, measurement, and impact on financial reporting. These discussions reflect a dynamic landscape influenced by evolving regulatory frameworks, technological advancements, and stakeholders' shifting expectations.

The regulatory environment surrounding auditing has evolved significantly, particularly in response to high-profile corporate failures and financial crises. Regulations such as the Sarbanes-Oxley Act in the United States and similar frameworks in other jurisdictions have intensified scrutiny of auditors' independence and the quality of their work (Chen et al., 2022). These regulatory changes aim to enhance audit quality by imposing stricter compliance requirements and emphasizing the importance of auditor independence (Knechel et al., 2023).

2.2 Auditor Independence

Auditors are presumed to be independence at all ramification during the course of carrying out their audit assignment. This is important to ensure the stakeholders interest is properly protected (Dakhlalh, Rashid, Wan Abdullah and Al Shehab,

2020). Auditor independence refers to the ability of auditors to perform their duties objectively and without any undue influence from the client. Independence is crucial for ensuring the integrity and reliability of audit reports. According to United State Security and Exchange Commission (2000), Auditor Independence refers to a mental state of objectivity and lack of bias. Similarly, Okolie (2014) defined auditor independence as an auditor's unbiased mental attitude in making decisions throughout the audit and financial statement process. Okolie (2014) further states that lack of auditor independence increases the possibility of being perceived as not being objective. This means that the auditor has not likely report a discovered breach (DeAngelo, 1981).

Auditor independence is critical for maintaining objectivity and credibility in the audit process. Auditors must be free from relationships that could compromise their impartiality. Numerous studies have shown that stronger independence leads to higher quality audits, as independent auditors are more likely to report misstatements and adhere to auditing standards (DeAngelo, 1981; Knechel et al., 2022). Increased independence enhances the credibility of audit findings and promotes confidence among stakeholders. Recent studies emphasize that independent auditors are more likely to report financial irregularities and provide

reliable assessments of financial statements (Farooq & Tabine, 2015). Ebrahim et al., (2023) auditor independence is a fundamental characteristic that ensures auditors can perform their duties without bias or conflict of interest. Independence is crucial for maintaining the credibility of the audit process. Research emphasizes that increased auditor independence correlates positively with audit quality, as independent auditors are more likely to report misstatements and adhere to auditing standards.

2.3 Auditor Independence and Audit Quality

According to the Consultative Council of Accountants Board (CCAB), independence is an attitude of mind characterized by integrity and an objective approach to professional work. It is an attitude that qualifies an auditor to express an opinion on matters of a financial statement without bias or undue pressure. In this case, possession of independent status constitutes an important ingredient in assessing quality audit. Professional accounting bodies consider independence as a key factor in measuring the performance of their members. For instance, the American Institute of Certified Public Accountants (AICPA, 2017) stated quality control standards to secure quality control in the practice of its members, including independence. The primary objective of maintaining independence is to ensure that

personnel maintain independence (in mind and appearance) in all required circumstances, perform all professional services with integrity, and maintain objectivity in discharging professional responsibility.

Wright and Wright (2017) posited that auditor independence is at the heart of the integrity of the audit process. When auditors and clients negotiate issues about financial statements, maintaining the integrity of the independence, the audit function is mandatory for auditors and required by the standards of the accounting profession. The auditor is expected to be neutral from both the management of the company and the shareholders in order to express an objective opinion on the financial statement. Audit fees refer to all charges that the client pays to the external auditors for both audit and non-audit services, such as management advisory and consultancy. Audit fees consist mainly of the wages and benefits of office and field personnel, travel costs, and other costs necessary to the audit and related support activities (Khaddash, Nawas & Ramadan, 2013). In the literature, if an auditor earns more than 25% of the total revenue from a client, independence is believed to be compromised.

Semi and Kehinde (2012) studied the perception of auditor independence in Nigeria during the period from 2010 to 2018. The results of the study

show that the size of audit fees is the most influential factor capable of deterring auditor independence in Nigeria. In a similar study, Semi and Johnson (2012) confirm that audit and /or non-audit fees threaten auditors' independence in Nigeria. Audit independence is the ability of an auditor to act in mind and appearance without influence from management. This study examines auditor independence and audit quality.

Millichamp (2004) identified the following that could impair the auditor independence such as undue dependence on an audit client (audit fee represents more than 10% of the total fees of the auditor firm), family or other personal relationships, beneficial interest in shares or other investment, loan to and from the client, acceptance of goods and services, actual or threatened litigations, influences outside the practice, provision of other services, and receipts of reward from a third party other than the client. Prior studies have shown that auditor independence affects audit quality.

2.4 Concept of Audit Committee Expertise

Audit Committee Expertise refers to the knowledge, skills, and experience possessed by members of an audit committee, particularly in the areas of finance, accounting, auditing, and risk management. This expertise is critical in enhancing the effectiveness of the audit committee's oversight

functions and ensuring the integrity of financial reporting. This expertise plays a crucial role in ensuring the accuracy, credibility, and compliance of financial statements (Mbatuegwu and Musa, 2021). According to Gao, Omar, and Shelley (2019), companies with audit committees that include strong financial experts tend to experience more efficient audits, which ultimately leads to improved audit quality.

Oyedokun, Ojo, and Fodio (2020) define audit committee expertise as a specialized body of experts responsible for monitoring and regulating the interests of key stakeholders like investors, managers, and creditors. Idris (2021) views audit committee expertise as a governance mechanism introduced to curb financial reporting manipulation, thereby enhancing audit quality. Dhaliwal, Naiker, and Navissi (2010) argue that audit committee expertise includes members with qualifications in accounting or finance, often with prior audit experience, which strengthens their oversight of financial reporting and audit quality. Other scholars, such as Bronson, Carcello, Hollingsworth, and Neal (2009), emphasize the need for a mix of accounting knowledge, auditing skills, and financial management experience within the audit committee, while Krishnan (2005) and DeZoort, Hermanson, Archambeault, and Reed (2002) stress the importance of formal accounting

education and extensive experience in financial oversight roles.

An audit committee is typically composed of independent directors tasked with overseeing financial reporting, compliance with regulatory requirements, and the overall audit process. Expertise in these areas is deemed essential for the audit committee to fulfill its responsibilities effectively. According to the Financial Reporting Council (FRC), an effective audit committee should have a strong understanding of financial reporting and the audit process, which contributes to improved governance and accountability within organizations (FRC, 2016).

Research indicates that audit committees with members who possess relevant financial expertise are better equipped to identify potential issues and challenge management more effectively. For example, Cohen, Holder-Webb, and Nath (2021) found that audit committees with members who have financial expertise tend to have higher quality discussions regarding financial reports, leading to better oversight outcomes. Furthermore, the presence of experts on the audit committee has been linked to improved financial reporting quality and reduced earnings management. Menon and Williams (2019) argue that audit committees with financial experts are more likely to take proactive

steps in addressing potential risks and ensuring compliance with accounting standards.

Many global financial regulations require that at least one member of an audit committee must be a financial expert. In the United States, the Sarbanes-Oxley Act (2002) mandates that public companies have an audit committee with at least one member identified as a "financial expert." This individual should possess: (a) a solid understanding of GAAP and financial statements, (b) experience in preparing, auditing, or analyzing financial statements, and (c) expertise in internal controls and financial reporting procedures. The UK's Smith Report (2003) supports the Sarbanes-Oxley Act, requiring that at least one audit committee member has significant, recent, and relevant financial expertise. The European Union Audit Regulation also mandates that audit committee members have the necessary competence related to the industry in which the company operates, as well as auditing and accounting knowledge.

Similar regulations exist in various African countries to ensure that audit committees include members with the expertise required for effective oversight of financial reporting and auditing processes. The expertise of audit committee members is not only about technical knowledge but also encompasses the ability to critically evaluate financial information and make informed decisions.

This multifaceted expertise is crucial for enhancing the credibility of financial statements and fostering stakeholder confidence.

Audit committee expertise acts as a moderator in the relationship between audit firm characteristics and audit quality. This means that the effectiveness of audit firm characteristics in influencing audit quality may be enhanced or diminished by the level of expertise within the audit committee. When audit committee members possess strong financial and auditing backgrounds, they are more likely to critically assess the work of the auditors and the quality of the audit process. This critical oversight can enhance the positive effects of audit firm characteristics on audit quality. For instance, Cohen et al. (2021) suggest that audit committees with financial experts are better able to engage in meaningful discussions about financial reports, leading to improved audit outcomes.

An expert audit committee is more likely to exercise independent judgment regarding the performance of the audit firm. This independence can lead to better identification of potential audit issues and a more robust response to audit findings.

2.5 Audit Committee Expertise as a Moderating Variable on the Relationship Between Auditor Independence and Audit Quality

Audit committee expertise consists of the financial literacy, experience, and skills of the members of

the audit committee, which play a significant role in overseeing the audit process and monitoring auditor independence. Research has shown that an effective audit committee can significantly influence the quality of audits and the independence of auditors (Muttakin et al., 2021). However, challenges to auditor independence can arise from various factors, such as long-term client relationships and economic dependence on fees from audit clients. This is where the role of audit committees becomes critical.

Audit committee expertise moderates the relationship between auditor independence and audit quality in several ways: An audit committee with financial expertise can effectively monitor the independence of auditors, providing checks and balances that reinforce auditor objectivity. Members knowledgeable in accounting and auditing standards are better equipped to challenge management and ensure that auditors remain independent (Muttakin et al., 2021). Skilled audit committee members can impose rigorous oversight on the audit process, holding auditors accountable for their findings and decisions. This accountability contributes to a more transparent audit process, which can enhance the quality of the audit (Davis et al., 2021). Audit committees with a strong understanding of ethical standards in auditing can foster an environment where ethical behavior is

prioritized, thereby encouraging auditors to maintain their independence (Suh et al., 2022).

Recent studies support the premise that audit committee expertise strengthens the relationship between auditor independence and audit quality: Muttakin et al. (2021) found that audit committee expertise significantly enhances audit quality by positively influencing auditor independence. Their research indicates that the presence of knowledgeable audit committee members leads to better monitoring of auditors, which, in turn, ensures higher audit quality. Davis et al. (2021) examined the interaction between audit committee characteristics and auditor independence. Their findings suggest that the effectiveness of auditor independence in improving audit quality is significantly stronger in firms with expert audit committees. Suh et al. (2022) emphasized that audit committees' financial literacy is critical in reinforcing auditor independence. Their study concluded that when audit committees have members with relevant expertise, the quality of audits improves, and the risks associated with impaired independence are mitigated.

In summary, audit committee expertise plays a vital moderating role in the relationship between auditors' independence and audit quality. By providing effective oversight, ensuring accountability, and fostering ethical conduct, audit

committees with the right expertise can enhance the independence of auditors, leading to improved audit quality. These dynamic underscores the importance of having qualified and knowledgeable members on audit committees, which is essential for maintaining the integrity of the financial reporting process.

2.6 Empirical Review

Lamba, Seralurin, Lamba, and Pattiasina (2020) conducted a quantitative study examining the relationship between auditor independence and audit quality, concluding that auditor independence has a positive and significant effect on audit quality. Similarly, Soyemi, Olufemi, and Adeyemi (2020) found that auditor independence positively and statistically significantly impacts earnings management. This finding suggests that excessive fees from a single client can compromise auditor independence, hinder the detection of material misstatements and ultimately diminish audit quality. In contrast, Mardijuwono and Subianto (2018) reported that auditor independence does not significantly influence audit quality, indicating that being independent does not automatically lead to enhanced audit quality. On the other hand, Iryani (2017) provided empirical evidence showing that auditor independence positively and significantly affects the audit quality of firms in South Jakarta,

suggesting that greater independence correlates with higher audit quality. Further supporting this notion, Octavia and Widodo (2015) also identified a significant positive relationship between auditor independence and audit quality. Similarly, Suseno (2013) utilized a survey design to establish that auditor independence significantly influences audit quality, advocating that fostering independent attitudes can enhance audit quality.

Ilaboya and Ohiokha (2014) investigated the influence of audit firm characteristics on audit quality, defining audit quality as a dichotomous variable where 1 indicates affiliation with a Big Four audit firm and 0 indicates otherwise. The study analyzed financial statements from 18 food and beverage companies listed on the Nigerian Stock Exchange over the period from 2007 to 2012. A multivariate regression technique was employed due to the binary nature of the dependent variable. The findings revealed a positive correlation between firm size, board independence, and audit quality. Conversely, there were negative relationships between auditor independence, audit firm size, audit tenure, and audit quality. The authors recommend that the Nigerian Financial Reporting Council and other regulatory bodies critically evaluate the three-year professional requirements for auditor independence, aligning with best practices. This study differs from the

current research in that it examines the moderating effects of third variables on the relationships among the variables.

Auditors are presumed to be independent at all ramification during the course of carrying out their audit assignment. This is importance to ensure the stakeholders interest has been properly protected, (Dakhlallah, Rashid, Wan Abdullah, & Al Shehab, 2020). The objectivity of professional auditor guarantees fairness and also imposes confidence as well as trust in the ultimate users of the financial reports. DeAngelo (1981), describes independence of an auditor as the provisional likelihood that the appointed auditor might exposed any material distortion in financial reports provided that this material distortion was previously determined. Chia-Ah and Karlsson, (2010), they stated that the fears to objectivity are in many cases very important and therefore challenge the effectiveness of the auditors in executing an unbiased auditing service. Zureigat, (2011) studied the impact of financial structure amongst the Jordanian quoted companies on audit quality. Employing a total sample of 198 firms, using the logistic regression analysis, the outcome from the study displays a positive and statistically significant association between the auditor independence and the audit quality attributes. Also, Hassan and Farouk (2014) examine the effect of audit quality and the financial

performance of listed cement companies in Nigeria. The result from their study revealed that auditor independence has major effects on performance of listed cement companies in Nigeria.

Babatolu, Aigienohuwa, and Uniamikogbo (2016) investigated the impact of auditor independence on audit quality among selected deposit money banks in Nigeria. They employed a purposive sampling technique to choose a sample size of seven listed banks from a total population of twenty. Secondary data were collected from the audited annual reports of these banks. The researchers used descriptive statistics, correlation analysis, and ordinary least squares (OLS) regression to evaluate the data. The findings indicated a positive relationship between audit fees and audit firm rotation with audit quality. In contrast, a negative relationship was found between audit firm tenure and audit quality. Furthermore, the analysis showed a strong, negative, and statistically significant correlation between audit quality and leverage, while a strong, positive, and statistically significant correlation was observed between audit quality and company size.

Khanh and Nguyen (2022) examined how audit committee independence and expertise affect audit quality in Vietnamese manufacturing firms. Audit quality was measured using modified opinions and restatements, and the study found that while

independence positively influenced quality, financial expertise had a stronger moderating effect on the relationship. Expertise not only improves oversight but also strengthens the effectiveness of other governance mechanisms. Variation: This study assesses audit quality through modified opinions and restatements in Vietnamese manufacturing firms, emphasizing the moderating effect of expertise, while the current research differs by focusing on Nigerian non-service firms, employing audit fees as a proxy for audit quality. Additionally, the regulatory and cultural context in Vietnam varies significantly from Nigeria, influencing governance practices. Khanh and Nguyen (2022) examined the moderating effect of audit committee expertise on audit quality in Vietnam, focusing on modified opinions and restatements as measures. The current study uses audit fees as a proxy for audit quality and focuses on the Nigerian non-service sector, presenting a more refined and localized analysis. The focus on audit fees and the specific challenges faced by Nigerian non-service firms provides deeper insights into how audit committee expertise moderates audit quality in emerging market contexts.

International Credential Assessment Services (ICAS) (2014) investigated the impact of auditor independence on audit quality, both independently and in combination, among members of the Capital

Market Accountant Forum in Indonesia. The study utilized secondary data collected through questionnaires distributed to a sample of 143 participants, including senior auditors, supervisors, and managers. A linear regression model was employed for data analysis, revealing that auditor independence generally has a positive influence on audit quality.

Rahmina and Agoes (2014) investigated the impact of auditor independence on audit quality, both individually and collectively. The research utilized primary data gathered through questionnaires distributed to audit firms listed in the Capital Market Accountant Forum (FAPM) in Indonesia. The study's population consisted of senior auditors, supervisors, managers, and partners working in member audit firms of FAPM. The findings indicated that, overall, auditor independence positively influences audit quality. The Coefficient of Determination revealed that 21.4% of the variations in audit quality can be attributed to auditor independence. In comparison, the remaining 78.6% is influenced by other variables not included in this study.

2.7 Theoretical Review

A theoretical framework serves as the foundation for understanding the concepts, variables, and relationships within a research study. It outlines the underlying principles, theories, and assumptions

that guide the investigation. In exploring the moderating effect of audit committee expertise on the relationship between auditor independence and audit quality. For the purpose of this study, Agency Theory was used to anchor this study where it provides a comprehensive explanation of how audit committee expertise moderates the relationship between auditor independence and audit quality in Nigerian-listed companies. This theory demonstrates how audit committee expertise improves oversight, optimizes resource utilization, ensures regulatory compliance, and enhances the audit process, thereby contributing to higher audit quality.

2.7.1 Agency Theory

Agency theory originates from the work of Berle and Means (1932), who explored the concept of agency and its implications for the development of large corporations. They highlighted how the interests of directors and managers often differ from those of the firm's owners, using the principal agent framework to explain the root of these conflicts. Agency theory was formally articulated in the 1970s by economists Michael Jensen and William Meckling in their seminal work, "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure" (1976). This theory builds on economic concepts that examine the relationships and conflicts of interest between

principals (owners or shareholders) and agents (managers or executives) within firms.

Jensen and Meckling (1976) expanded on the insights of Berle and Means (1932) to develop agency theory as a formal concept. They argued that corporations are structured in ways that minimize the costs of ensuring that agents (managers) act in accordance with the principals' (shareholders') interests. The theory acknowledges that different parties involved in a common goal have varied motivations, often leading to divergent behavior. It recognizes the inevitability of partial goal conflict among parties because efficiency and effectiveness are interdependent, and information has always been asymmetrically distributed between the principal and agent. This explains why decisions or behavior may vary among group members. Specifically, it describes the relationship in which the principal delegates work to the agent. Berle and Means (1932) made a key contribution to the development of agency theory by analyzing the separation of ownership and control in large corporations. As firms grow, the ownership (shareholders) and control (managers) of the organization become increasingly distinct, leading to potential conflicts of interest. Managers (agents) may pursue their own goals, which may not align with the interests of the shareholders (principals). This misalignment creates agency problems, which

became the foundation for future discussions on how to mitigate such conflicts in corporate governance.

Building on Berle and Means' work, Jensen and Meckling (1976) provided a structured analysis of the principal-agent relationship, focusing on the divergence of interests between managers and shareholders and the associated agency costs. They categorized these costs into three types: Monitoring Costs, incurred by principals to oversee agents' actions; Bonding Costs, borne by agents to demonstrate their commitment to the principals' goals; and Residual Losses, representing the reduction in value caused by the remaining misalignment between principal and agent interests after monitoring and bonding efforts.

Jensen and Meckling's formalization of agency theory advanced the understanding of corporate governance challenges. Their work emphasized the importance of governance mechanisms, such as boards of directors and audit committees, to monitor management and reduce agency costs. This framework is essential for understanding how firms can be structured to minimize inefficiencies caused by agency problems, ultimately aligning with the broader goal of maximizing shareholder value.

Recent studies reinforce this perspective. Hamdan et al. (2021) demonstrated that audit committees with financial expertise significantly enhance

financial reporting quality in emerging markets, reducing agency problems. Similarly, Al-Sartawi et al. (2022) found that expertise reduces earnings management, aligning management actions with shareholder interests. Audit committee expertise moderates the relationship between audit firm characteristics and audit quality by reducing agency conflicts and ensuring that auditors perform their roles with greater diligence and independence.

2.7.2 Agency Theory, Audit Committee Expertise, Auditor Independence and Audit Quality

Audit committees play a critical role in corporate governance by overseeing financial reporting processes and ensuring the integrity of audit functions. The expertise of audit committee members is essential for enhancing auditors' independence and overall audit quality. This relationship can be explored through various theoretical frameworks, including Agency Theory, Resource Dependence Theory, and Stakeholder Theory.

Agency Theory posits that the separation of ownership and control in corporations leads to potential conflicts of interest between managers (agents) and shareholders (principals). An effective audit committee can mitigate these conflicts by ensuring that external auditors remain independent from management.

Audit committee expertise enhances auditors' independence by providing objective oversight and reducing management's ability to influence the audit process. Backer, M., & Merkt, M. (2023) suggest that audit committee members with relevant financial expertise are better positioned to challenge management decisions and ensure auditors' independence, thus enhancing audit quality (Backer & Merkt, 2023).

Audit committee expertise contributes to maintaining auditors' independence by leveraging external knowledge and networks. DeFond, M. L., & Zhang, J. (2022) argue that audit committees composed of members with relevant expertise are more effective in fostering auditor independence and facilitating high-quality audits (DeFond & Zhang, 2022).

Audit committee members' expertise is crucial in fostering auditors' independence and ensuring high-quality audits. By applying the lenses of Agency Theory, it becomes evident that a skilled audit committee can effectively monitor and support the audit process, ultimately contributing to better corporate governance and accountability.

3.0 Methodology

3.1 Research design

Research design refers to the overall strategy that a researcher employs to integrate the different

components of a study coherently and logically. It outlines how to collect, measure, and analyze data, ensuring the research objectives are met. In the context of exploring the moderating effect of audit committee expertise on the relationship between auditor independence and audit quality in listed companies in Nigeria. This study adopted the ex-post facto research design, where historical data were extracted from the published annual reports and accounts of the sampled listed companies in Nigeria.

3.2 Population and sample size

This study population encompasses all 155 Companies listed on the Nigerian Exchange Group (NGX) as of December 31, 2023. A sample size of 114 listed companies in Nigeria was selected. The sample size of 114 was selected based on the availability of complete data for the 10 years from 2015 to 2024. The sample size for this study was determined by applying two filters to drop certain listed companies. Firstly, some listed companies from the population were removed because they were not listed on the NGX as of January 1, 2015. Secondly, some were also dropped due to incomplete data during the study period, as the available data is less than 3 years. For the purpose of this study, secondary data was used. The secondary data were obtained from the annual reports and accounts of the audit firms and 114

sampled listed companies in the NGX Fact Book 2025, available on their webpage, for the period from 2015 to 2024.

3.3 Model Specification

The Audit Quality of listed companies was estimated as a function of Audit Quality (AUQ) through both qualitative and quantitative linear relationships, respectively, such as Auditor Independence (AUI), Auditor Type (AUT), Audit Partner Rotation (APR), Audit Firm Tenure (AFT), and Joint Audit (JUA) for qualitative variables, while Audit Committee Expertise (ACE) for moderating variables and Company Size (CS) for controlling variables

The econometric model is stated as:

$$AUQ_{it} = \beta_0 + \beta_1 AUI_{it} + \beta_2 ACE_{it} + \beta_3 (AUI \times ACE)_{it} + \beta_4 AFS_{it} + \beta_5 LEV_{it} + \beta_6 AGE_{it} + \beta_7 ROA_{it} + e_{it}$$

Where:

AUQ = Audit Quality

AUI = Auditor Independence

ACE = Auditor Committee Expertise

AFS = Audit Firm Size

LEV = Leverage

AGE = Firm Age

β_0 = Regression intercept

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7$ = Parameters to be estimated

e = Error term

it = company i in year t

4.0 Results

4.1 Descriptive Statistics

This section provides descriptive statistical analysis of the data generated on the dependent, independent and control variables of the study. Table 1 presents the descriptive statistics.

Table 1: Descriptive Statistics

Variable	Mean	SD	Min	Max
AUQ	0.87	1.28	-2.46	4.55
AUI	0.65	0.48	0.00	1.00
ACE	0.77	0.42	0.00	1.00
AUI×ACE	0.50	0.50	0.00	1.00

Note: AUQ = Audit Quality, AUI = Auditor Independence, ACE = Audit Committee Expertise.

Source: Researcher’s Computation, 2025.

Table 1 presents the descriptive statistics, which show that auditor independence (AUI) and audit committee expertise (ACE) are relatively high across the sampled firms, with mean values of 0.65 and 0.77 respectively. This suggests that most firms comply with corporate governance provisions requiring independent auditors and the inclusion of financially literate members on audit committees. Audit quality (AUQ), however, displays wide variability (Mean = 0.87; Std. Dev. = 1.28), indicating that while some firms demonstrate high reporting quality, others still experience significant deficiencies.

Table 2: Correlation Matrix

Variable	AUQ	AUI	ACE	AUI×ACE
AUQ	1.000			
AUI	0.135	1.000		
ACE	0.033	0.017	1.000	
AUI×ACE	0.048	0.773	0.583	1.000

Source: Researcher’s Computation, 2025.

The correlation matrix in Table 2 reveals weak associations between AUQ and the independent variables. AUI shows a small positive correlation with AUQ ($r = 0.135$), while ACE is almost uncorrelated ($r = 0.033$). The interaction term (AUI×ACE) also has a negligible correlation with AUQ ($r = 0.048$). These weak correlations already suggest that the variables may not have a strong joint effect on audit quality.

Table 3: Regression Results (Moderation Effect of ACE on AUI–AUQ Relationship)

Variable	Coefficient	SD	t-value	p-value
Constant	0.2174	0.3328	0.653	0.514
AUI	0.4650	0.3993	1.164	0.244
ACE	0.1151	0.4585	0.251	0.802
AUI×ACE	0.0728	0.5350	0.136	0.892

$R^2 = 0.036$

Adjusted $R^2 = 0.010$

F-statistic = 1.489 ($p = 0.222$)

Source: Researcher’s Computation, 2025.

Regression results in Table 3 confirm this observation. Auditor independence ($\beta = 0.4650$, $p = 0.244$) and audit committee expertise ($\beta = 0.1151$, $p = 0.802$) both exhibit positive but statistically

non-significant effects on audit quality. More importantly, the interaction term (AUI×ACE) carries a small and insignificant coefficient ($\beta = 0.0728$, $p = 0.892$), implying that audit committee expertise does not strengthen or weaken the effect of auditor independence on audit quality. The overall model fit is weak (Adjusted $R^2 = 0.010$), reinforcing the conclusion that these governance mechanisms operate independently rather than synergistically in improving audit outcomes.

This finding suggests that while both auditor independence and audit committee expertise are important in theory, their joint presence does not automatically translate into better audit quality in practice. Nigerian listed firms may therefore need to develop stronger coordination between internal and external governance structures to realize complementary benefits.

4.2 Discussion of Findings

The results presented in Tables 1–3 show that both auditor independence (AUI) and audit committee expertise (ACE) exhibit positive but statistically insignificant effects on audit quality (AUQ), while their interaction (AUI×ACE) is also insignificant. This finding implies that audit committee expertise does not moderate the relationship between auditor independence and audit quality in the sampled Nigerian listed companies.

This outcome is consistent with the argument of agency theory, which emphasizes that different governance mechanisms may function independently to reduce information asymmetry between managers and shareholders. In this case, auditor independence as an external mechanism and audit committee expertise as an internal mechanism appear to influence audit quality in parallel rather than synergistically.

Empirically, these results align with Adewale and Fagbemi (2023), who reported that audit committee financial expertise alone was not sufficient to significantly enhance financial reporting outcomes without broader institutional support. Similarly, Daniel (2025) found that auditor independence improved audit outcomes, but its interaction with internal governance variables was not statistically significant in the Nigerian context. On the other hand, the findings diverge from Nwikwonzor et al. (2025), who documented a positive interaction between audit committee effectiveness and external auditor independence in improving audit quality, particularly in firms with higher ownership concentration.

The weak explanatory power of the model (Adjusted $R^2 = 0.010$) further highlights that other firm-level or institutional factors may be more critical in determining audit quality. Variables such as audit firm size, regulatory enforcement, or

ownership structure may provide stronger explanatory power than independence and expertise alone. This resonates with the findings of Ame et al. (2023), who emphasized the central role of audit firm characteristics and institutional enforcement in shaping audit quality outcomes in emerging economies.

Finally, the study provides evidence that, within Nigerian listed companies, auditor independence and audit committee expertise individually promote audit quality to some extent but do not reinforce each other when combined. This suggests that firms and regulators should not only focus on compliance with governance codes but also foster coordination between internal and external audit mechanisms to achieve sustainable improvements in financial reporting quality.

5.0 Conclusion and Recommendations

The findings reveal that while auditor independence and audit committee expertise individually contribute to audit quality, their interaction does not provide additional explanatory power. This suggests that internal and external governance mechanisms are functioning in isolation rather than complementing each other. For companies, this highlights the need to strengthen collaboration between audit committees and external auditors through joint training sessions, improved communication, and shared oversight

practices. Regulators, such as the Financial Reporting Council of Nigeria (FRCN) and the Securities and Exchange Commission (SEC), should go beyond mandating independence and expertise by introducing guidelines that promote coordinated engagement between internal and external monitors. Policymakers may also consider periodic performance reviews of audit committees to ensure that the presence of expertise translates into practical oversight. Such measures could enhance the synergistic impact of governance structures, thereby improving the credibility of financial reporting in Nigeria.

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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

ε_{it} = 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
R²	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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