

**THE EFFECT OF AUDITORS INDEPENDENCE AND AUDIT QUALITY**

**BY**

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BENIN CITY.**

**APRIL, 2024.**

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## DECLARATION

I hereby declare that:

1. This project report is based on the study undertaken by me in the Department of Accounting, University of Benin, under the supervision of Dr. Monye-Emina H. E.
2. This work has not been previously submitted for the award of degree elsewhere.
3. All ideas and views are product of my personal research and where the views of others have been expressed, they have been duly acknowledged.

## **CERTIFICATION**

This is to certify that the research project was carried out by Martins OMOBUDE in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, Edo State in partial fulfillment for the award of Bachelor of Science (B. Sc) degree in Accounting.

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**Dr. Monye-Emina H.E.**

Project Supervisor

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**Date**

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**Dr. Ikhu-Omoregbe G.O.**

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**Date**

**Dr. Obaretin Osasu**  
Head of Department

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Date

## **DEDICATION**

This project is dedicated to The Almighty God, my source of mercy, grace and strength.

## **ACKNOWLEDGEMENT**

My utmost appreciation goes to My Heavenly Father, for His grace and mercies throughout the period of this program and for its successful completion.

To my project Supervisor DR MONYE-EMINA H.E, who was and always has been amazingly supportive and assisted me during this project. I appreciate you dearly Sir..

My gratitude also goes to all my lecturers in the Department of Accounting who were available to make sure I acquired the requisite knowledge during this program; God bless you all.

My sincere appreciation to my beloved parents Mr. Moses and Mrs. Blessing ISIWELE and my family who have had great faith in me and encouraged me through course of this program

God bless you.

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**ABSTRACT**

**This study on the effect of auditor independence and audit quality in accounting reports. The study adopts audit familiarity, audit rotation, audit intimidation and contribution both external and internal auditor were measured as dependent variables in this study. Survey data gathering in form of Likert scale were used in gathering data which constitute opinion of professionals from accounting field on the impact of these variables on audit quality.**

**Descriptive and simple linear regression statistical analysis were used in measuring the accumulated data for the survey with the result showing that auditor familiarity and auditor intimidation has a significant impact and negative effect on audit quality. The result show that auditor familiarity leads to 14% fall in audit quality. also, the result show auditor intimidation contributed to up to 48% below par on audit quality. The tested data result also show audit rotation has a significant impact and positive effect on audit quality contributing to 12% rise in audit quality and internal auditor shows to be effective if independent from management of the company compared to external auditor when trying to achieve a greater audit quality.**

**This study also recommends accounting regulating bodies and corporate regulations should try to reduce auditor tenure to improve more auditor rotation thereby also act as important tools in preventing audit familiarity and intimidation. This study also encourages proper spelt out of duties of accounting and management department to reduce work interference thereby promoting independent of accounting and audit department from management office which will be vital in promoting audit quality.**

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1. BACKGROUND TO THE STUDY**

The foundation of the accuracy and scope of the data in the financial statement is the audit, a crucial component of accounting. The majority of investors rely on the report that an auditor provides, and their role in the development of the capital market extends beyond simply examining the financial statements; rather, they attest to the true and fair view of the financial statements (Velte & Loy, 2018). Auditing is one of the less criticised areas of accounting, according to Zainudun and Hashim (2016). It has been used since the 1980s to support accounting principles like accountability, integrity, and transparency for appropriate judgement and to assist capital market investors in making investment decisions.

Auditing is described as a systematic process to objectively gather and assess evidence regarding the assertion of various economic actions or events in order to ascertain the degree of conformity between these assertions in A Statement of Basic Auditing Concepts (ASOBAC). It is crucial for a business to engage in audit activities, which are carried out by independent third parties (Raham & Yakubu, 2022). The level of confidence held by different stakeholders remains positively correlated with audit quality. A number of stakeholders are either directly or indirectly impacted by the financial statements' audit quality. A company's audit quality would be negatively impacted and many stakeholders would be forced to decide how to proceed with their future relationship with that company if it received a series of audit quality notes in which auditors raised numerous concerns about different controls and audit procedures (Adeoye, 2022). Many stakeholders expect an appropriate level of audit quality that has been approved and highlighted by auditors, in addition to an unqualified audit opinion (Adeoye, 2022). The company's management, as well as their strategic and operational decisions regarding finance, debt management, sales, marketing, human resources, and all other related departments, would face a number of difficulties if an auditor issued a qualified audit report. As a result, expectations and worries about the operational and

financial performance of audited financial statements vary among stakeholders (Khaled & Zalailah, 2023).

Accounting professionals have been interested in audit quality and the factors that affect it. Akpom and Dimkpa (2013) state that one of the main concerns in the auditing profession is auditor independence, which they define as the external auditors' capacity to act impartially and with integrity while performing their auditing duties. The underlying presumption that certified public accountants are impartial towards their clients underpins the value of auditing services (Shockley, 1981). It can also be defined as maintaining objectivity when carrying out audit tasks, testing, evaluating the outcome, and validating the audit report; audit independence can significantly enhance these aspects.

According to Bahram (2007), an audit must satisfy reasonable expectations and be conducted with due consideration for audit quality in order to be carried out in a way that will satisfy investors and users of financial statements. Regulatory frameworks that actively monitor the way auditors perform their duties, audit fees, audit tenure, audit rotation, audit size, and board composition are just a few of the numerous variables that can affect the quality of an audit (Blankley et al, 2014). It is necessary for auditors to project an image of independence in their behaviours, attitudes, and ideas. Any action taken by management or the auditor that might compromise this independence ought to be refrained from. In evaluating the advantages of an independent auditor, the Institute of Chartered Accountants of Nigeria (ICAN) argued that it is essential to maintain strict adherence to regulations pertaining to the fundamentals of independent auditing. These regulations are intended to improve the professionalism of auditors and increase public confidence and respect as well as that of other users of the audited financial report (Olatubosun et al., 2020). Since the most common elements that raise audit standards also raise regulatory recognition, auditors must meet widely acknowledged standards for objectivity when it comes to matters of judgement. As

stated by the SEC in 2000. Being independent gives auditors the ability to conduct reviews with objectivity, reliability, and moral expertise. Being independent in appearance also reflects the way in which clients view the auditor's efforts to look into the main area of the auditor's independence, which is primarily accomplished by independent auditor tenure to lessen client-auditor familiarity.

Due to their significance and influence on financial statement records outlay, information, and decision-making among accounting users, auditor independence and audit quality are receiving more and more attention from academic practitioners and other users of accounting information. The main focus of this research will be on how an auditor's independence influences audit quality in organisational settings and the accounting field as a whole.

## **1.2. STATEMENT OF THE PROBLEM**

Several studies have been used to determine how the auditor's independence impacted audit quality among accounting professionals. Thereby bringing out different results and endnotes. Some studies conclude that independent audits have no or little influence in promoting audit quality but other factors such as board composition, audit fee, institution structure of financial statement, firm size and Firm market.

The power of an organization to hire, dismiss and retain both external and internal auditors also prevents audit independence and hence prevents audit quality. Auditors may not perform their function of their own free will because of the desire to keep their jobs therefore tend to dance to the tune of the directors (Adeyemi & Okpala, 2011). According to Nashwa, (2003), the challenge is that co-operate organization directors and management are empowered to appoint, fire, hire and also decide payment of both external and internal auditors. Consequently, auditors tend to negotiate with management in the bid to retain the client's job

for this reason. auditors may not be reasonably and practically independent of the co-operate management.

Over the years there has been a question of whether internal auditors are truly productive in carrying out their work due to interference of management when performing their duties (Ardan, 2019). Fritany and Anggrita (2021) describe the work of private external auditors as a client-driven initiative that dims the independence of external auditors. The firm main goal is to increase the revenue yield which allows some to practice tax avoidance and low contribution to environmental social responsibility by not showing full details of the business operation and are also encouraged by client-driven auditors whose only aim is to act according to the corporate directive and not independently (Harber & Max, 2020).

Another problem that hinders auditor independence is the familiarity and closeness of the auditor and corporate organization (Arhdani, Subroto & Hariadi, 2019). They added that the tenure of the auditor should be spelled out in the corporate Articles and the Audit Committee meeting, the view of using a single auditor or audit firm has become a normal practice in Nigeria's corporate environment which can prevent the independence of the auditors when performing their duties.

Maritiarn, Rahman, Fritany & Anggriata (2022) in their study describe auditor independence as a critical matter but insist that a competent auditor can only be evaluated during a lengthy spell of audit exercise which makes it hard for audit rotation. Auditor independence might not bring about audit quality (Salehi, Zimon, Tarighi & Gbolohamzedah, 2023). Their study also further on auditor independence by implying that audit quality is achieved by the level of experience and level of skill acquired which is the necessity corporate firms need and hold on to which can lead to too much familiarity which can alter auditor independence.

Therefore, this study will focus on the attempt to close the gap from the previous studies by examining the importance of audit independence and the effect of audit independence on audit quality.

### **1.3. OBJECTIVES OF THE STUDY**

The main objectives of this study are to empirically examine the relationship and the effect of audit independence on audit quality, these objectives are to determine the;

1. Evaluate the impact of auditor familiarity on audit quality;
2. Determine the extent by which auditor's rotation promotes the effectiveness of audit quality;
3. Examine the relationship and effect of auditor intimidation on audit quality;
4. Determine the ones with more impact between the involvement of external auditors and internal auditor in promoting audit quality.

### **1.4. RESEARCH QUESTIONS**

The motive of this study is to give the answers to these problems generated from this research by providing a consistent answer to these questions on;

1. What is the impact of auditor familiarity on audit quality?
2. Does auditor's rotation promote the effectiveness of audit quality?
3. What is the effect of auditor intimidation on audit quality?
4. Does an external auditor have more impact than an internal auditor in promoting audit quality?

## **1.5. RESEARCH HYPOTHESIS**

Arising from this research study objectives are the following hypotheses stated in their null form, all of which will be subsequently tested in this research study;

H0<sub>1</sub>: Auditor familiarity has no significant impact on audit quality.

H0<sub>2</sub>: Auditor's rotation does not promote the effectiveness of audit quality.

H0<sub>3</sub>: Auditor intimidation has no significant relationship and effect on audit quality.

H0<sub>4</sub>: External auditor does not have more impact than internal auditor in promoting audit quality.

## **1.6. SCOPE OF THE STUDY**

The primary goal of this research is to determine how auditor independence affects audit quality. The variables listed in the objectives—auditor familiarity, auditor rotation, auditor intimidation, and internal and external auditor performance—will be taken into account in this study in order to establish quantifiable study outcomes.

The data boundary for this study will include a survey analysis of auditors, accountants, finance managers, and academic students who are experts in the fields of accounting and management and have a broad understanding of audit exercises. This study will employ quantitative research methods to gather and collect data. Additionally, a thorough explanation of the measured data will be provided by the study by contrasting the outcomes with the previous thesis from 2021 to 2023.

## **1.7. SIGNIFICANCE OF THE STUDY**

Academic students' understanding of the significance of auditor independence in enhancing audit quality will be expanded thanks to this study on the relationship between auditor independence and audit quality. As a result of several accounting scandals that have damaged the reputation of auditors, regulators, institutional investors, and stakeholders are becoming increasingly concerned about auditor independence and the calibre of audit reports. The study's conclusions shed light on how an auditor's independence enhances audit quality and guards against director meddling in audit procedures. Wider audit scope requires auditors to put in more work, and the result is that mandatory audit firm rotation will strengthen auditor independence and an audit committee with nonexecutive independence will improve audit quality. The study also reveals that smaller audit firms that are members of professional bodies will offer higher-quality audits in terms of auditor size. The primary finding of this study is that audit quality will increase when an auditor performs their duties in a completely independent manner and resists pressure from outside parties. This study sheds light on how the adoption of IFRS affects audit quality.

## **1.8. LIMITATION TO THE STUDY**

This study's limitations stem from its non-figurative data on audit independence and audit quality, which is based on qualitative, nominal, rather than numerical data. This makes it possible for professional accountants to argue and debate whether audit independence improves audit quality.

Another constraint is the size of the firms, which also affects the audit exercise process. In a large, globally operating firm, audit exercises are typically impacted by a number of factors that could hinder the exercise's smooth execution and records because of disparate

regulations that could result in contributions from different auditors and complicate the process of establishing auditor independence on the report's quality.

By measuring the impact of auditor independence on audit quality through expert opinions and qualitative data collection procedures, this study will help to mitigate the limitations of the thesis.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1. INTRODUCTION**

In order to explain how auditor independence affects audit quality, this section of the study aims to provide more information on the various keywords covered in the study using a literature survey approach that includes conceptual, empirical, and theoretical reviews.

#### **2.2. CONCEPTUAL REVIEW**

##### **2.2.1. AUDITOR INDEPENDENCE**

Investor trust in the auditor is based on the auditor's reputation and how well the intermediary has accurately confirmed managers' claims regarding the financial statements. Therefore, auditors have to always appear to maintain and uphold their independence. This gets complicated because managers have the power to hire and fire auditors under their jurisdiction. This gives the auditor the opportunity to become swayed by conflicts of interest and potentially lose their independence.

Conflicts over the SEC's and its subset NSE's ability to punish negligent companies were highlighted in the World Bank Reports on the Observance of Standards and Codes Accounting and Auditing (2004). Salawu (2017) also noted the nation's operational laxity as a result of the regulators' lack of operational independence. An obstacle to auditor compliance is the intricate structure of the various regulatory bodies' oversight roles regarding auditor independence. Regulators have created various policies in an effort to support auditor independence, but these have not been without long-term dysfunction. As was previously mentioned, in addition to the FRC, a number of regulators were also involved in issuing regulations and establishing standards for audit practitioners, among them the renowned

professional body (ICAN). Audit firms have frequently determined that it is impracticable to follow provisions that appear to be at odds with the ROSC and to choose the ones that best serve their interests.

Five factors, which influence auditor engagement, are identified by the International Federation of Accountants (IFAC) as threats to auditor independence: self-interest, self-review, advocacy, familiarity, and intimidation. The International Auditing and Assurance Standards Board (IAASB) for quality control and the Association of Certified Chartered Accountants (ACCA) code of professional conduct for members are two examples of regulatory and professional bodies that have implemented awareness campaigns. Throughout the audit engagement, auditors are expected to adhere to these standards and the code of conduct.

The capacity of an auditor to remain impartial and objective throughout an audit is known as auditor independence (Bahram 2007). According to Rick, Roger, Arnold, and Philip (2004), it is a circumstance in which an auditor is able to conduct audit tests, analyse data, and provide attestation in an entity's audit report with objectivity. Furthermore, Arens et al. (2011) state that maintaining audit independence necessitates an attitude of responsibility distinct from the client's interest; the auditor keeps a healthy dose of professional scepticism. In conclusion, auditor independence refers to the auditor's capacity to conduct the audit, analyse the findings, and attest to the audit report in the client's best interest while acting impartially and objectively.

Arens et al. (2011) state that there are two ways to explain an auditor's independence: independence of thought and independence of appearance. According to the authors, an impartial audit can be conducted because the auditor's mental state is reflected in their

independence of thought. It is a reflection of the long-standing mandate that statutory auditors have actual independence. Appearing independence is the result of other people's ideas about what independence ought to be. If auditors are regarded by users as advocates for their clients even though they are independent in reality, then the audit function will lose most of its value. Examiner One of the most crucial characteristics of the accounting profession is independence. Investors depend on management information about the company's financial standing. The profitability and growth of the company must be maintained by managers. Hence, managers' primary objective, aside from investors' interests, is to always present the company as being in solid standing. To make an informed decision about whether or not to keep investing in the company, investors want to know the truth about the company's position. As a result, the auditor acts as an intermediary to safeguard the investors from the self-interest (Austin & Herath, 2014).



**SOURCE: knowledge bank.co.uk (Fig. 1)**

## **2.2.2 DETERMINANTS OF AUDITOR INDEPENDENCE**

### **2.2.2.1 AUDITOR FAMILIARITY AND AUDIT QUALITY**

One factor used to measure auditor independence during an audit exercise is auditor familiarity, which comes from the rapport auditors have with their clients. The auditors risk becoming overly acquainted with the client's management if they have a long-term relationship with them. The familiarity threat to the engagement will increase with the length of the parties' association (Ernest & Justin, 2020). Working with a client over an extended period of time helps an auditor gain more insight into the client's operations. On the other hand, this might make their relationship stronger and increase the rivalry, nepotism, and favouritism among auditing firms (Sufyan & Bishtawi, 2003). The auditor's independence is influenced by his length of service, and replacing him will increase expenses and lessen his experience (Titus et al., 2014).

The notion of a familiarity threat is introduced by the AICPA Code of Professional Conduct, which takes into account it from both an individual and firm level. It characterises it as a danger that could compromise a member's objectivity, independence, or professional scepticism and results from a lengthy or close relationship with an individual or an employing organisation (AICPA, 2015). The code states that while familiarity might not necessarily have these detrimental effects—that is, it might not compromise independence—it is still important to assess the risks and implement any necessary countermeasures (AICPA, 2015). Public accounting firms have stated in their position papers regarding required audit firm rotation that it is important to distinguish between the concept of overfamiliarity with

management and an auditor's familiarity with a business and its environment, which develops over time and is lost in mandatory rotation. For instance, as demonstrated in Transparency in an audited report, PWC (2023) by Wes Brecker, which highlights the benefits an auditor has when interacting with clients through operational system design.

#### **2.2.2.2. AUDITOR ROTATION AND AUDIT QUALITY**

In particular, Raiborn, Schorg, and Massoud's (2006) insight into auditor rotation revealed that operations that rely heavily on the financial statements and lack financial reporting practices will significantly lower audit quality when a new auditor is unfamiliar with the company's accounting information system. Longer auditor tenure is preferred over required auditor rotation in Italy, according to Cameran et al. (2013), who claim that this will improve audit quality. However, Bryan and Reynolds (2016) thought that requiring auditor rotation would only improve the quality of audits performed by smaller, non-industry-specialized audit firms. The mandatory auditor rotation has long been a topic of discussion. While the opposing side demanded audit firm rotation, the supporting side proposed audit partner rotation. There are claims that auditor rotation will increase auditor independence and quality, while others contend that firms must pay more to hire new auditors and that audit failure is caused by the new auditor's inexperience with the client's accounting system.

According to Adeyemi and Okpala (2011), auditor rotation is a crucial feature of an audit that can support auditor independence; additionally, a lengthy audit tenure may foster an audit-client relationship that could result in an alignment of the auditor's and the client's interests. Adeyemi and Okpala also focus on an auditor's or audit firm's conduct as a crucial component of audit rotation, which tends to safeguard and lessen self-interest. Financial reports, as well as the external auditor verifying them, must be credible to investors, the public, and shareholders. In order to establish strong credibility, the external auditor must be impartial

and not affiliated with any group. One of the many variables that can impact the independence and calibre of an audit is the auditor's rotation. The regulatory bodies have suggested rotating the external auditors to avoid familiarity or long-term relationships (Al-Khoury et al, 2015).

There are two types of auditor rotation: required rotation and voluntary rotation. Essentially, by looking into audit rotation, lawmakers and regulators are attempting to improve audit quality by resolving an issue with independence threats that they believe cannot be resolved with a solution that hasn't been demonstrated to improve audit quality (Mendonca & Persson, 2014; Postma, 2016). Many practitioners are concerned about factors like audit rotation, tenure, and industry specialisation having the potential to solve the problem because there is no proof that the measures introduced to address it will accomplish its goals. The duration of an auditor's stay with a client is determined by mandatory rotation. Despite the auditor's objectivity, independence, efficiency, and quality as well as the management's and shareholders' desire to retain them, it is necessary for the auditor to be rotated after a few years (Onwuchekwa et al, 2012). It is the setting of a cap on the length of time an audit firm works with an organisation (Sarbanes-Oxley, 2002). It has been suggested as a substitute for auditor tenure because the former may cause an audit's quality to decline. Consequently, the auditing and accounting literature focuses on factors that influence and pose a threat to audit quality (Al-Nimer, 2015).

The primary goal of required rotation is to avoid the external auditor and client becoming too familiar or developing a long-term relationship. According to Al-Nimer (2015) and Ball, Tyler & Wells (2015), the general argument is that auditor rotation will lessen the long-standing relationships and familiarity between the external auditor and the client, allowing auditors to assess client risks in a new way. It will also support the much-needed auditor

scepticism and offer a new and fresh perspective, all of which could increase auditor independence and improve audit quality.

### **2.2.2.3. AUDITOR INTIMIDATION AND AUDIT QUALITY**

Threats to fire auditors, litigation threats, client pressure to scale back audit work in order to save money, and more are examples of intimidation tactics, according to IFAC (2012). According to Knapp (1985), loan officers believed that technical standard ambiguity made it harder for auditors to resist client pressure, but healthier clients were thought to have a greater chance of influencing the auditors' decisions. In a similar vein, Bierstaker and Wright (2001) note that while partner pressure was satisfied by limiting scheduled tests, auditors increased efficiency by cutting budgeted hours in response to fee pressures. Using a qualitative study, Fearnley, Beattie, and Brandt (2005) demonstrate that the most common threats faced by auditor-client associations were intimidation and familiarity. According to other research (Knapp, 1985; Chung & Kallapur, 2003, for example), auditors are more inclined to give in to larger clients when their finances are strong than to smaller, less stable ones. Overall, the research shows that a client's capacity to influence an auditor's decision-making is correlated with its financial standing, and that auditors who experience intimidation are more likely to be bullied into accepting client choices and pressured into making snap decisions (Fearnley, Beattie, & Brandt, 2005) or threatened with having their fees reduced or changed (Alleyne, Devonish, & Alleyne, 2006; Al-Ajmi & Saudagaran, 2011).

### **2.2.3 EXTERNAL AND INTERNAL AUDITOR AND AUDIT QUALITY**

The term "internal audit" has been defined in a number of ways by academics and writers from the business world. As a service to the organisation, internal auditing is described by Millichamp (2000) as "an independent appraisal function within an organisation for the review of the system of control and the quality of performance." According to Unegbu and Obi (2012), internal audit is a component of the internal control system that an organization's management has implemented to guarantee adherence to established work procedures. This system will help management maintain efficient administration, control, and cost minimization; it will also guarantee capacity utilisation and maximum benefit derivation.

Internal auditors must collaborate with management and auditees in order to be effective. Mutual respect and goals that are in line with one another in terms of improving the organization's operations should define this relationship. Persuasion, teamwork, and communication are expected of the internal auditor in order to secure and foster an environment that is favourable to audits, as per the IIA's competency framework (Institute of Internal Auditors, 2013).

Establishing connections with management and other auditees within the organisation is necessary for this. These connections should strengthen the audit process and add value to the company while fostering trust and lowering audit resistance (Chambers & McDonald, 2013). Furthermore, according to a different study, management and internal audit relationships are crucial for internal audit effectiveness (Mihret & Yismaw, 2018). Internal audits don't happen in a vacuum; in order for the function's efforts to improve organisational processes, management and auditees' cooperation is necessary. Thus, internal audit's capacity to improve organisational performance is limited in an environment marked by mistrust and low support. Internal audit access to information, appreciation of internal audit activities, execution of internal audit recommendations and observations, and guaranteeing proper audit preparations

are all essential components of a productive relationship between internal audit and management (Elliott, Dawson, & Edwards, 2020).

According to Campello, Graham, and Harvey (2020), using external auditors is a sign of mistrust and necessitates a check and balance on financial data. The policies and procedures known as control activities are those that are put in place to manage risks and make sure the entity meets its goals on schedule and within budget. They also have to be reasonable, thorough, and have a clear connection to the goals of control. All levels and functions of the organisation engage in control activities. Control operations need to be appropriate and reliable in order to be successful (ICSC, 2005). Users of accounting information typically employ an external auditor when they believe that the financial report, which was audited by an internal auditor and submitted by management, contains unfair records (Rafiu & Oyedokun, 2007).

To avoid reporting a loss (Shuli, 2011) or avoiding subpar performance, management may turn to making more flexible accounting decisions (Campello, Graham and Harvey, 2010; Habib, Bhuiyan and Islam, 2013). When choosing between different accounting and financial methods to compute the earnings to present the financial performance of the institutions, managers can also take advantage of the flexibility provided by Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). However, this could result in a decrease in the quality of financial reporting (Makar, Alam, & Pearson, 2000). The rise in discretionary accruals could be the cause of the FRQ's decline (Shahanif, 2017).

As a result, a number of parties have brought attention to the fact that external auditors and audit quality can be important factors in a variety of financial scandals. Thus, it is crucial to

comprehend the connections between the audit quality and the effectiveness of the external auditors (Hosseinniakani, Inacio, & Mota, 2014).

### **2.2.3.1. COLLABORATION BETWEEN INTERNAL AND EXTERNAL AUDITOR**

When an external auditor depends on the work of an internal auditor and both internal and external auditors collaborate during audits, they grant each other access to working papers (Brody, Golen, & Reckers, 2010; Zain et al., 2018). It is a cooperative relationship that adds value to the organisation and promotes audit process efficiency. Partnerships between internal and external auditors reduce audit latency and raise awareness of the firm's financial account preparation system and management process (Abbott, Parker, & Peters, 2012; Wood, 2010). Additionally, it has been demonstrated that this partnership reduces earnings management and enhances the calibre of financial reporting (Prawitt, Smith, & Wood, 2010).

## **2.3. THEORETICAL REVIEW**

This section focuses on the pertinent theories that are used to explain how an auditor's independence affects the quality of the audit. The Agency theory, Institutional theory, Source credibility theory, and Inspired Confidence theory will all be applied in this study.

### **2.3.1. AGENCY THEORY**

The Agency theory is one of the most popular theories for elucidating the auditing concept. According to Adams (1994), agency theory is widely used in the accounting literature to forecast and explain the selection and effectiveness of external auditors. The relationship between the actions of internal and external auditors is explained by agency theory. Additionally, the theory helps to emphasise the roles that internal auditors play in both public and private organisations (Ironkwe & Ordu, 2015). According to agency theory, auditors represent their principals as agents and are obligated to act in the principals' best interests.

Stated differently, agency theory holds that auditors function as representatives of their principals and, in the majority of cases, act to uphold the interests of those who appointed them. This is especially true for public sector organisations, where political appointees and managers serve as the representatives of the people, and stakeholders depend on them to act in their best interests and to safeguard their resources. They must answer to the stakeholders; only then will they have acted in their stakeholders' best interests.

The works of Stephen Ross in 1973 and Barry Mitnick in 1975 are credited with creating agency theory (Mitnick, 2006). Though the fundamental ideas that underpin both theories are similar, Ross is credited with creating the economic theory of agency, while Mitnick is responsible for the institutional theory of agency. Though they proposed the agency theory in their groundbreaking paper and thesis, Mitnick and Ross did not contribute to its popularisation. Jensen & Mecklings (1976) applied and popularised agency theory in the business and institutional setting, which as a result gave rise to the introduction of agency theory in the business world as mentioned (Mitnick, 2006).

Jensen & Meckling (1976) cited the creators of the agency theory; however, their contribution was primarily an influential application of the agency approach to the theory of the firm. Adams (1994) goes on to say that agency theory not only helps to explain and predict the existence of internal audit, but it also helps to explain the role and responsibilities that the organisation assigns to internal auditors. Additionally, agency theory helps to predict how organisational change will likely affect the internal audit function. This is especially true for organisations in the public sector. Since managers and political appointees represent the people, it is imperative that stakeholders take action to safeguard their interests and resources.

They must answer to the stakeholders; only then will they have acted in their stakeholders' best interests.

This theory highlights that management and third parties both benefit from the use of audit services. There is an agency relationship between the principals (shareholders, employees, banks, etc.) and the agent (management), wherein the agent is given the authority to make decisions. The agent may not always act in the principal's best interests if both parties seek to maximise utility. For example, shareholders may want to maximise share value, while management may be interested in the company growing. Therefore, the expenses and advantages of an agent-principal relationship are the main topics of agency theory. "Agency costs" are the total of the principal's monitoring expense, the agent's bonding cost, and the residual loss. They are incurred as a result of the decision-making authority granted to agents in contemporary businesses due to the division of ownership and control. A conflict of interest between shareholders and managers would result in an undesirable agency cost, while a beneficial agency cost would maximise shareholder value. Analysis of agency costs shows how effectively an agent is carrying out his duties for the principal, allowing the latter to monitor and implement measures to minimise conflicts of interest. Since an organisation has numerous contracts with different parties (such as suppliers, employees, etc.) that add value to the business for a certain price in exchange for their interests, it is the agent's duty to optimise the contracts in order to maximise the organization's value.

### **2.3.2. INSTITUTIONAL THEORY**

The institutional theory offers a comprehensive explanation of how the organization's behaviour and structure are influenced by social, political, and cultural factors outside of it (Fogarty, 1992). When it came to offering a compelling explanation for the behaviours of people and organisations, this theory became the most popular one (Dacin & Dacin, 2008).

The practices and behaviour of auditors can be explained by the deep and intricate organisational insights offered by the institutional theory (Haapamäki, 2022; Zucker, 1987). According to earlier research, the institutional theory can explain how audit functions are carried out in both developed and developing nations (Arena & Azzone, 2007; Boolaky & Soobaroyen, 2017; Mihret et al., 2012; Vadasi et al., 2019). According to Chan et al. (2010), local auditors operating in an institutionally weak setting are more likely than those operating in a strong setting to provide an unqualified opinion. In addition, Chan et al. (2010) and Arena et al. (2006) discovered the connection between the evolution of diverse attributes within Italian audit departments and the institutional environment's characteristics. Abbott et al. (2012) demonstrated that the institutional environment's features moderate the relationship between internal auditor participation in financial report audits, audit quality, and audit efficiency.

### **2.3.3. SOURCE CREDIBILITY THEORY**

Hovland et al. developed the source credibility theory (1953). According to this theory, persuading someone can be accomplished more quickly if the sources used are reliable. According to the source credibility theory, two factors that impact an information source's credibility are source expertise and source bias (Birnbaum & Stegner, 1979; Tjeng & Nopianti, 2021). Evaluation of the source's characteristic attributes, such as knowledge, training, experience, and work results, is used to determine whether the source is regarded as a "expert" with high credibility (Steinbart et al., 2012). The source credibility theory's constructs of source competence and source objectivity have been applied to auditing studies in the past as variables influencing client credibility (Agrawal, 2018; Cohen et al., 2022; Hux, 2021). Additionally, the impact of internal auditor qualities on the degree of external auditors' reliance on government financial report audits is explained by this study using the source credibility theory.

According to this theory, enhancing the credibility of financial statements is a crucial component of auditing and a basic service that auditors offer their clients. Audited financial statements increase users' trust in the management's stewardship and an organization's financial records, which improves their ability to make informed decisions about new contracts or investments. This is due to the fact that the financial statements must be trusted by stakeholders. Financial statements' increased credibility influences stakeholder decisions (such as suppliers' credit limits) and increases shareholder confidence in management, thereby lessening the "information asymmetry" that exists between stakeholders and management.

#### **2.3.4. THEORY OF INSPIRED CONFIDENCE**

This is sometimes known as the rational expectations theory. In Limperg (1932), the supply and demand for audit services are discussed. The participation of interested parties in a company directly results in the demand for audit services. In exchange for their financial contributions to the business, these parties demand accountability from the management. Accountability is achieved by means of regular financial report releases. However, an audit is required to guarantee the accuracy of this information because the management's disclosure may be biased and external parties lack direct access to the company's records. In terms of providing audit assurance, Limperg (1932) believes that the auditor should constantly try to live up to public expectations.

The supply and demand for audit services are the main topics of this theory. Financial statements establish the relationship of accountability; nevertheless, since external parties are unable to keep an eye out for any substantial misrepresentation or bias in financial reports, there is a need for an impartial, trustworthy audit. Since the general function of audits stems from the need for an independent examination and an expert opinion based on findings, and

because society places a high value on the opinion of independent auditors, the provision of audit services should satisfy the public confidence that arises from the audit and fulfil community expectations. Since audits benefit those who use financial statements, it stands to reason that the social utility of audits would end if society lost faith in audit opinions. In order to fulfil his duty to investigate business practices and offer a reliable opinion on the financial statements, the auditor must continue to follow proper business practices in order to preserve his independence from the company he is auditing.

## **2.4 EMPIRICAL REVIEW**

In his research, Fakultas (2020) examined how auditor independence and competence affected audit quality. The objective of the research is to examine and validate empirical data regarding the impact of experience, expertise, duration of client interaction, client pressure, peer review, and non-audit services offered by KAP on audit quality. After first testing traditional hypotheses, the research hypothesis was answered using multiple regression analysis tools on a sample of 79 respondents, who were auditors at 18 KAPs. The study's findings support the notion that audit quality is positively impacted by an auditor's background in conducting audits, their expertise, and the evaluation of other auditors (peer review). Thus, the more in-depth and comprehensive an auditor's knowledge base, the more seasoned they are in the auditing profession, and the more peer review they receive from other auditors. The higher the level of audit quality, the more the auditing field and peer review from other auditors are considered. higher calibre of the audit that was carried out. Meanwhile, the duration of the client relationship, client pressure, and KAP's non-audit services.

Relationship between the independence of the auditors and the reliability of the audited financial statements in Nigeria is the study conducted by Ezewure and Agbo (2020). The goal

of the study is to determine whether Nigerian audited financial statements' credibility and the independence of the external auditor are related. The study specifically aims to determine whether the credibility of audited financial statements in Nigeria is significantly correlated with the integrity of the external auditor and whether the objective approach to the external audit process is significantly correlated with the credibility of audited financial statements in Nigeria. The Chi-squared method was utilised to analyse the data, and a survey research design was used. A well-structured questionnaire was utilised to gather data from 150 users of audited financial statements in Enugu State for this study. The study's findings indicate that the credibility of audited financial statements in Nigeria and the integrity of the external auditor are significantly correlated. The study also reveals a strong correlation between the legitimacy of audited financial statements in Nigeria and an objective approach to the external audit process. It recommends that the auditor's independence should be strengthened by taking different measures such as a reduction in the tenure of auditors, regular rotation of auditors and appropriate audit fees.

In order to empirically investigate the impact of auditor independence, audit tenure, and firm characteristics on audit quality in Nigeria, Odin and Oziegbe (2022) have conducted a study on auditor independence, auditor tenure, and audit quality evidence in Nigeria. A sample of ten (10) pharmaceutical companies listed on the Nigerian Exchange Group (NGX) makes up the study's population. The study's time frame includes the companies' audited financial statements from 2013 to 2019. Two explanatory variables—audit tenure and independence—and two control variables—firm size and firm age—were the main subjects of the study. While both big four and non-big four firms served as proxies for the dependent variable, audit quality. In this study, the secondary source of data was used. Panel regression techniques were employed for the analysis of the collected data. The findings imply that every explanatory and control variable significantly and favourably affects audit quality. According

to the study, audit quality is directly correlated with the independence of auditors; therefore, independent audit firms are necessary to improve audit quality. A client-auditor relationship shouldn't last longer than three years to prevent familiarity risks. Additionally, since using one of the larger audit firms produces better audit quality, businesses are advised to do so. In order to benefit from the experiences that older firms have accumulated over time and which have a positive impact on audit quality, younger firms should observe older firms.

In their research, Hamza, Wan, Pahidi, and Muhammad examined the influence and efficacy of external auditors on the quality of financial reporting. The primary goal of the research is to determine how the effectiveness of the external auditor affects the calibre of financial reporting and how the calibre of the external audit acts as a moderator in this relationship in Jordanian companies. Panel Data from 180 companies listed in ASE between 2009 and 2017 were used in the study. The Causal Steps Method was applied to the data analysis. The findings showed that while auditor tenure has a significant negative impact on FRQ, industry specialisation has a significant positive impact by preventing EM practices, and auditor size had no discernible impact on FRQ. The findings also showed that the factors that positively and significantly affect audit quality are auditor tenure, industry specialisation, and auditor size, all of which have a negative impact on audit quality. In terms of the mediation effect, the findings showed that the audit quality (fees) acted as a partial mediating factor in the relationship between the auditor's effectiveness and FRQ. The results hold significance for regulators, decision-makers, shareholders, and auditors in the context of enacting new laws pertaining to the audit profession, promoting industry specialisation, and endorsing the external auditor rotation policies implemented by Jordanian firms. In the Jordanian context, the current study is thought to be the first to examine the relationship between the efficacy of the external auditor and the FRQ and audit quality, as well as the mediating role that the audit fees play in these relationships.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1. INTRODUCTION**

The methodology for the study, which included investigating methods for data collection and analysis, is covered in this chapter. The chapter presented the research design within this framework, talked about the population and sample that were taken into consideration, went into detail about the data source and model specifications, and offered methods for defining and measuring variables. It also described the suggested methodology for the data analysis.

#### **3.2. RESEARCH DESIGN**

The study's research design included a detailed plan and procedures to facilitate the data collection needed to learn more about the study's main topic. The research design used in the study is causal, which is appropriate for obtaining first-hand primary experience with cross-sectional analysis.

### **3.3. POPULATION AND SAMPLE SIZE**

The study's population consists of 100 accounting industry respondents, including audit firms, students, and accountants, who participated in a self-observatory questionnaire survey to analyse the impact of auditor independence on audit quality.

### **3.4. SOURCES OF DATA**

With the help of primary information from accountants and specialised auditors who are skilled in the auditing field and produce accurate audit work, the study's population was identified through questionnaire survey analysis.

### **3.5. MODEL SPECIFICATION**

The study adopted a survey research design with the use of a questionnaire which helped to obtain cross-sectional data. The questionnaire was structured using a five-point Likert scale rated as follows: Strongly Agreed, Agreed, Neutral, Disagree and strongly Disagree (SA, A, N, D, SD) respectively.

$$AQ = F (AF, AR, AI, EA, IA)$$

$$AQ = \beta_0 + \beta_1AF + \beta_2AR + \beta_3AI + \beta_4EA + \beta_5IA + \varepsilon_t$$

Where;

AQ = Audit Quality

AF = Audit Familiarity

AR = Audit Rotation

AI = Audit intimidation

EA = External auditor

IA = Internal auditor

$\beta_0 + \beta_1 + \beta_2 + \beta_3 + \beta_4 + \beta_5 =$  Constant of each exogenous variables

$\epsilon_t$  = Random Error term

### **3.6. MODEL OF DATA ANALYSIS**

The data collected for this study will be evaluated using a combination of mathematical and statistical methods, such as simple percentage analysis, descriptive statistics, and simple linear regression. There will be a 5% threshold of significance applied. The data gathered for the study was also tested using the Cronbach's Alpha statistic.

## **CHAPTER FOUR**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1. INTRODUCTION**

This chapter provides full details on the study data collated from the sample population, its presentation, analysis and the result from the data output. This chapter tends to give more information on how the objectives will be treated based on the concluded data analyzed for the study. Hence, the section will help give more highlights, comparisons and the reason for gaps in the previous study.

This chapter will help with the discussion of findings, conclusion and recommendation making it a vital part of this research conclusion process and also promoting more insight into

the study discussed conceptually and empirically with the use of quantitative testing tools such as preliminary testing tool (Descriptive and correlational analysis) and simple regression model method (SRM) to statistically test the hypotheses.

## **4.2 DATA PRESENTATION**

This section gives full details on the pre-process data which will be analyzed for the purpose of providing a conclusion for this study. The section includes a demographic presentation of respondents to the survey and a data presentation of each question representing the variables which is the basis of the objectives of this study.

### **4.2.1. DEMOGRAPHIC PRESENTATION OF RESPONDENTS**

**Table 1: DATA PRESENTATION ON SEX OF RESPONDENTS**

<b>SEX</b>	<b>FREQUENCY</b>	<b>PERCENTAGE (%)</b>
<b>Male</b>	<b>46</b>	<b>46%</b>
<b>Female</b>	<b>54</b>	<b>54%</b>
<b>Total</b>	<b>100</b>	<b>100%</b>

**SOURCE: RESEARCHER COMPILATION (SURVEY ANALYSIS) 2024.**

The table above (1) illustrates the total number of respondents from the questionnaire distributed, their gender frequency and percentage distribution. This shows that female

respondents have a larger figure (54) compared to their male counterparts (46) in the survey distributed.

**TABLE 2: DATA PRESENTATION ON REpondENTS AGE**

<b>AGE BRACKET</b>	<b>FREQUENCY</b>	<b>PERCENTAGE (%)</b>
<b>18 -25</b>	<b>12</b>	<b>12%</b>
<b>26 - 35</b>	<b>32</b>	<b>32%</b>
<b>36 - 45</b>	<b>36</b>	<b>36%</b>
<b>46 and above</b>	<b>20</b>	<b>20%</b>
<b>Total</b>	<b>100</b>	<b>100%</b>

**SOURCE: RESEARCHER COMPILATION (SURVEY ANALYSIS) 2024.**

Table 2 as shown above is the total summary of respondent's ages lined in the 10-year bracket. The summary shows respondents who fall under the age bracket 36 – 45 respond more to the distributed questionnaire survey constituting 36(36%) respondents. Other respondents who fall into these various age brackets 18-25, 26-35 and 46 above as shown on the table constitute 12, 32 and 20 respondents respectively.

**TABLE 3: DATA PRESENTATION ON RESPONDENT EDUCATION QUALIFICATION**

<b>EDUCATION QUALIFICATION</b>	<b>FREQUENCY</b>	<b>PERCENTAGE (%)</b>
<b>SSCE/GCE</b>	<b>5</b>	<b>5%</b>
<b>HND/First Degree</b>	<b>56</b>	<b>56%</b>
<b>Masters/PHD</b>	<b>39</b>	<b>39%</b>
<b>Others</b>	<b>0</b>	<b>0%</b>
<b>Total</b>	<b>100</b>	<b>100%</b>

**SOURCE: RESEARCHER COMPILATION (SURVEY ANALYSIS) 2024.**

Respondent's education qualification is important in considering valid and invalid data to be accepted when compiling responses from respondents to the survey analysis. Table above (3) shows the level of educational qualification attained by the respondents. The table shows the high-frequency figure and percentage of respondents 56(56%) who bag either HND/First Degree, Masters/PHD have the second highest frequency with 39(39%) then SSCE 5(5%) respectively.

**TABLE 4: DATA PRESENTATION SHOWING RESPONDENT YEARS OF PROFESSIONAL EXPERIENCE**

<b>YEARS OF PROFESSIONAL EXPERIENCE</b>	<b>FREQUENCY</b>	<b>PERCENTAGE</b>
<b>1 – 5 Years</b>	<b>12</b>	<b>12%</b>
<b>6 – 10 Years</b>	<b>48</b>	<b>48%</b>
<b>11 – 15 Years</b>	<b>34</b>	<b>34%</b>
<b>16 and above</b>	<b>11</b>	<b>11%</b>
<b>Total</b>	<b>100</b>	<b>100%</b>

**SOURCE: RESEARCHER COMPILATION (SURVEY ANALYSIS) 2024.**

Table (4) shows the full description of respondent years of professional experience, this is crucial in picking valid data. The table shows that 12 respondents already have 1-5 years, 48 respondents have 6-10 years, 34 respondents have 11- 15 years of experience and 11 respondents already achieved 16 years and above of being in professional services.

#### **4.2.2 SURVEY DATA PRESENTATION**

This section provides a detailed summary of collated data from the questionnaire survey analysis represented in frequency and percentage distribution.

**Table 5: DATA PRESENTATION ON AUDITOR FAMILIARITY**

S/N	Survey Questions	SA	A	N	D	SD
1	<b>Auditor Familiarity can be seen as a threat to auditor independence.</b>	58%	36%	5%	1%	0%
2	<b>Familiarity among auditors and management will help in terms of information dispensation gathering to improve audit exercise.</b>	21%	53%	7%	13%	6%
3	<b>Familiarity does occur due to the self-interest of management that has the intention of manipulating the auditors.</b>	59%	31%	8%	1%	1%
4	<b>SEC (Security Exchange Commission) (2020) identifies that auditor independence does not cover after completing the audit exercise. SEC law on independence should span even across after auditor exercise to prevent audit familiarity.</b>	53%	41%	6%	0%	0%
5	<b>Audit familiarity is considered to be an ineffective practice in audit independence due to human interpersonal relationships.</b>	5%	22%	17%	45%	11%

**SOURCE: RESEARCHER COMPILATION (SURVEY ANALYSIS) 2024.**

Table 5 represents the summary of the data presentation on auditor familiarity and its effect on auditor's independence. questions 1- 4 outlined above show that the majority of the respondent opinion is in line with the positive response but question 5 which is on “Audit familiarity is considered to be ineffective practice in audit independence due to human interpersonal relationship” shows controversial opinion with the majority of the respondent not agreeing to the stated question.

**TABLE 6: DATA PRESENTATION ON AUDITOR ROTATION**

S/N	Survey Questions	SA	A	N	D	SD
1	<b>Audit rotation is necessary as a tool for promoting audit quality.</b>	41%	40%	9%	10%	0%
2	<b>Audit rotation rules on Mandatory Audit Firm Rotation (MAFR) that limit auditor</b>	35%	25%	7%	25%	8%

	<b>tenure to a maximum of 10 years is enough for audit quality</b>					
<b>3</b>	<b>Auditor rotation helps to reduce mismanagement and promote stakeholder interest</b>	<b>48%</b>	<b>45%</b>	<b>2%</b>	<b>3%</b>	<b>2%</b>
<b>4</b>	<b>Audit independence will be more effective if firms keep on rotating auditor irrespective of considering the skills approach of the hired auditor</b>	<b>8%</b>	<b>8%</b>	<b>10%</b>	<b>34%</b>	<b>40%</b>
<b>5</b>	<b>Auditor rotation reduces consistency in producing good audit reports due to the nature of different ideas introduced by different audit firms.</b>	<b>11%</b>	<b>23%</b>	<b>10%</b>	<b>33%</b>	<b>26%</b>

**SOURCE: RESEARCHER COMPILATION (SURVEY ANALYSIS) 2024.**

Table 6 is a summary of respondent's opinions on the effect of auditor's independence on audit quality using audit rotation as a variable to be considered. Question 1 to 3 respondent's opinion shows that the majority of it falls under SA. A scale. Questions 4 and 5 have more respondents on negative opinion scale.

**TABLE 7: DATA PRESENTATION ON AUDITOR INTIMIDATION**

<b>S/N</b>	<b>Survey Questions</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>
<b>1</b>	<b>Auditor intimidation can be seen as an illegitimate activity practice by corporate management.</b>	<b>63%</b>	<b>33%</b>	<b>2%</b>	<b>2%</b>	<b>0%</b>
<b>2</b>	<b>Auditor approach and self-interest can bring about a threat from corporate management who want to protect their self-interest.</b>	<b>57%</b>	<b>38%</b>	<b>3%</b>	<b>3%</b>	<b>0%</b>
<b>3</b>	<b>Auditor intimidation is not monitored enough by the corporate and financial regulatory body</b>	<b>50%</b>	<b>30%</b>	<b>1%</b>	<b>15%</b>	<b>4%</b>
<b>4</b>	<b>Auditor continuation and fee in audit exercise allow auditors to easily fall under intimidating influence posed by the</b>	<b>48%</b>	<b>54%</b>	<b>3%</b>	<b>0%</b>	<b>0%</b>

	corporate management.					
5	Internal auditors are always faced with management intimidation and influence on their audit exercise compared to external auditor.	45%	46%	5%	2%	2%

**SOURCE: RESEARCHER COMPILATION (SURVEY ANALYSIS) 2024**

The table above (7) provides respondent's opinion on the effect of auditor intimidation and its effect on audit quality. The table shows that the respondent's opinion on the cited question relating to audit intimidation has the majority of opinion of respondent falls into the positive scale (SA and A).

**TABLE 8: DATA PRESENTATION ON EXTERNAL AND INTERNAL AUDITOR**

S/N	Survey Questions	SA	A	N	D	SD
1	The external auditor is seen as more independent than the internal auditor during an audit exercise	34%	44%	6%	12%	8%
2	The external auditor is mostly used in corporate firms than the internal auditor	27%	35%	2%	23%	13%
3	Management in corporate firm setup tends to trust external auditors more than the internal auditor	48%	33%	10%	5%	4%
4	The external auditor is discussed more among audit committees than the internal auditor when audit exercises are required	31%	34%	11%	12%	12%
5	External auditor acquires all the attributes required for audit quality than the internal auditor.	15%	23%	22%	16%	24%

**SOURCE: RESEARCHER COMPILATION (SURVEY ANALYSIS) 2024**

Table 8 shows that questions 1,2,4, and 5 have a controversial opinion among the respondents on internal and external auditor as variables in measuring the effect of auditor independence

on audit quality. However, question 3 shows that the majority of respondent's opinion falls under the positive scale.

### 4.3. DATA ANALYSIS

This section provides the outcome of the data presented after going through various test. Descriptive and simple regression analysis statistical model were used in providing a reliable outcome drawn for the purpose of making a conclusion in this study.

#### 4.3.1. DESCRIPTIVE STATISTIC

**TABLE 9 : DESCRIPTIVE ANALYSIS ON AUDIT FAMILIARITY**

<b>Survey Question</b>	<b>N</b>	<b>Mean</b>	<b>Standard deviation</b>	<b>Skewness</b>	<b>Kurtosis</b>
<b>Q1</b>	<b>100</b>	<b>1.49</b>	<b>0.643</b>	<b>1.199</b>	<b>1.381</b>
<b>Q2</b>	<b>100</b>	<b>2.28</b>	<b>1.092</b>	<b>0.985</b>	<b>0.269</b>
<b>Q3</b>	<b>100</b>	<b>1.53</b>	<b>0.731</b>	<b>1.319</b>	<b>1.339</b>
<b>Q4</b>	<b>100</b>	<b>1.56</b>	<b>0.641</b>	<b>0.712</b>	<b>-0.481</b>
<b>Q5</b>	<b>100</b>	<b>3.33</b>	<b>1.111</b>	<b>-0.372</b>	<b>-0.826</b>

**SOURCE: RESEARCHER COMPILATION (IBM SPSS STATISTIC 20) 2024**

Table 9 indicate a summary result of analyzed data on auditor familiarity as a measured variables in effect of auditor's independence in audit quality. The descriptive result show that the mean and standard deviation of respondent's opinion attached to the survey data are narrowly dispersed.

**TABLE 10: DESCRIPTIVE ANALYSIS ON AUDITOR ROTATION**

Survey Question	N	Mean	Standard deviation	Skewness	Kurtosis
Q1	100	1.89	0.952	0.940	0.027
Q2	100	2.48	1.403	0.389	-1.347
Q3	100	1.60	0.711	0.940	2.060
Q4	100	3.86	1.247	0.389	0.066
Q5	100	3.10	1.418	0.940	-1.380

**SOURCE: RESEARCHER COMPILATION (IBM SPSS STATISTIC 20) 2024**

The table above (10) shows the output result of descriptive analysis of data compiled on the effect of auditor rotation on audit quality. The descriptive result shown in the table indicate a narrowly dispersed variation in standard deviation from questions 1 to 3 with 4 and 5 showing a narrowly widely dispersed value. The descriptive result also gives a positive skewness value whereas the kurtosis value on questions 2 and 5 indicates a negative value.

**TABLE 11: DESCRIPTIVE ANALYSIS ON AUDITOR INTIMIDATION.**

Survey Question	N	Mean	Standard deviation	Skewness	Kurtosis
Q1	100	1.43	0.640	1.685	3.639
Q2	100	1.48	0.703	1.673	3.166
Q3	100	2.58	1.342	0.657	-0.874
Q4	100	1.52	0.659	1.115	1.049
Q5	100	1.53	0.745	1.318	1.185

**SOURCE: RESEARCHER COMPILATION (IBM SPSS STATISTIC 20) 2024**

Table above (11) shows the output result of descriptive analysis of data compiled on the effect of auditor intimidation in audit quality. The descriptive result shows a narrowly dispersed value between the mean and the standard deviation.

**TABLE 12: DESCRIPTIVE ANALYSIS ON IMPACT OF EXTERNAL AND INTERNAL AUDITOR**

Survey Question	N	Mean	Standard deviation	Skewness	Kurtosis
Q1	100	1.98	0.985	1.142	0.976
Q2	100	2.28	1.092	0.985	0.269
Q3	100	2.48	1.403	0.389	-1.347
Q4	100	1.48	0.703	1.673	3.166
Q5	100	2.94	1.377	0.086	-1.273

**SOURCE: RESEARCHER COMPILATION (IBM SPSS STATISTIC 20) 2024**

The descriptive analysis table (Table 12) shows a narrowly dispersed variation between the value of the mean and the standard deviation.

#### **4.3.2. SIMPLE LINEAR REGRESSION MODEL**

**TABLE 13: SUMMARY OF SIMPLE LINEAR REGRESSION MODEL ON STUDY VARIABLES**

Variables	( $\beta$ ) Correlational Coefficient	P - Value	R - Square	Adjusted R -Square	DW	Standard Error
AF	-0.014	0.001	0.105	0.041	0.123	0.179
AR	0.120	0.004	0.026	0.025	0.118	0.401

<b>AI</b>	<b>-0.048</b>	<b>0.000</b>	<b>0.038</b>	<b>0.013</b>	<b>0.170</b>	<b>0.284</b>
<b>EA&gt;IA</b>	<b>-0.531</b>	<b>0.000</b>	<b>0.101</b>	<b>0.053</b>	<b>0.233</b>	<b>-5.123</b>

**SOURCE: RESEARCHER COMPILATION (IBM SPSS STATISTIC 20) 2024**

The regression result shows that AF, AR, AI and EA>IA have a significant impact in audit quality (P-value < 0.005). the regression model also shows the  $\beta$  coefficient of the variables which indicates that Auditor Familiarity (AF), Auditor Intimidation (AI) and External auditor have more impact than internal auditor in promoting audit quality has a negative impact on audit quality while Auditor rotation (AR) has a positive impact on audit quality. Table (13) also the R-square which indicates the level of percentage impact of the variables on audit quality.

#### **4.4. HYPOTHESIS TESTING**

This section provides a full detail interpretation of the result from the tested data and also identifies the conclusions for the study from the interpretation by addressing the previously stated hypothesis testing.

##### **DECISION RULE:**

The acceptance of the null form hypotheses will be based on the result from the data analyzed. Where the result of the coefficient beta ( $\beta$ ) is negative we accept the null hypotheses but if the result says otherwise, we reject the null hypothesis with the level of significance based on the P-value (0.005).

##### **HYPOTHESIS 1:**

**H<sub>0</sub><sub>1</sub>: Auditor familiarity has no significant impact on audit quality;**

According to the regression model auditor familiarity has a significant impact (P- Value = 0.001) on audit quality and also leads to a reduction in audit quality if practiced among the auditors and management ( $\beta = - 0.014$ ) with the test showing audit familiarity leads to fall in 14% of audit quality.

**Result of the hypothesis:** we reject the null hypothesis.

#### **HYPOTHESIS 2:**

**H0<sub>2</sub>: Auditor's rotation does not promote the effectiveness of audit quality;**

According to the compounded regression model (Table 13) Auditor rotation has a significant impact on (P-value = 0.004) which is less than the outline base of the significant 0.005. The table also illustrates that auditor rotation contributes to an increase of 12% ( $\beta = 0.120$ ) in audit quality.

**Result of the hypothesis:** we reject the null hypothesis.

#### **HYPOTHESIS 3:**

**H0<sub>3</sub>: Auditor intimidation has no significant relationship and effect on audit quality;**

Table 13 of the regression model indicate a significant impact (P-Value = 0.000) but also illustrate a negative effect of this variables on audit quality ( $\beta = -0.048$ ) this shows that auditor intimidation does lead to 48% of poor audit quality.

**Result of the hypothesis:** The study rejects the null hypothesis.

#### **HYPOTHESIS 4:**

**H0<sub>4</sub>: External auditor does not have more impact than internal auditor in promoting audit quality;**

According to the regression table analyzed in table 13 external auditor and internal auditor have a significant impact in audit quality (0.000). The regression result further shows that external auditor does not have more impact than internal auditor when promoting audit quality according to the beta coefficient ( $\beta = -0.531$ ).

**Result of the hypothesis:** Will reject the null hypothesis for this study.

#### 4.5. DISCUSSION OF FINDINGS

This section of this study provides end notes on the hypothesis testing with full details on the reason for the outcome of the data result and comparison with previous studies.

Firstly, the result of the regression shows the impact of auditor familiarity leads to negative audit quality when considering the  $\beta$  value (-0.014) which indicates that audit familiarity significant impact on audit quality but will have negative interference. thereby, reducing audit quality and this result aligned with Ernest and Justin (2020) and Odin and Oziegbe (2022).

The second Variables of this study i.e. audit rotation show a positive effect on audit quality ( $\beta = 0.120$ ) which indicates a positive value and a significant effect on audit quality. This result follows with the result given on audit rotation and auditor independence by Adeyemi and Okpala (2021) and Carmella (2013).

Auditor intimidation has a negative effect as shown in the regression analysis with  $\beta$ - (-0.018) which shows a fall in audit quality this result is in line with Al -Aljmi and Sandagara when discussing the threat caused by auditor intimidation on financial reports.

The last variable considered in this study is on impact of external auditors in comparison to internal auditors in audit quality. The null hypothesis was structured in favor of the external auditor and the model result helped to provide a good insight that the internal auditor is more

crucial in audit quality than the external auditor. Campello, Graham and Hermey (2020) in their study stated that the positive result of external auditors is masterminded by the internal auditor which show the same resemblance view with this result according to respondent opinion measured and tested in this study. Other previous studies which aligned with this result include Unigbu and Obi (2012) and Mihrat and Yimaw (2018).

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION**

#### **5.1. INTRODUCTION**

This chapter constitutes the summary of the thesis and end notes which is the basic information and knowledge derived from the data analyzed for the study. The chapter will present the summary of the findings, conclusion and further recommendations to guide future research works.

## **5.2. SUMMARY OF FINDINGS**

The study examines the effect of an auditor's independence on audit quality picking four variables out of the study objectives which include auditor familiarity effect as a prospect of auditor independence other prospects are; auditor rotation, auditor intimidation and lastly external and internal auditors also compared to know which of the audit type as the more positive effect on audit quality. The data used for the purpose of this study were gathered through the use of a questionnaire structured in five points Likert Scale {Strongly Agree (SA), Agree (A), Neutral (N), Disagree (D) and strongly Disagree (SD)} which is appropriate to gather people opinion and view on these outlined variables.

Respondents targeted by the study include professionals from accounting firms and management who can relate to and provide reliable answers to the written questionnaire survey. The data from the respondents was statistically measured using statistical tools such as descriptive and simple linear regression analysis. The data acquired and measured provides us with this output which helps provide integral findings as summarized below;

1. Audit Familiarity (AF) was found to have a significant impact in determining the volume of audit quality (P-value – 0.000) and also produce a negative effect on audit quality ( $\beta$  – 0.014) which shows that Audit Familiarity does contribute to 14% of fall in audit quality which is a deteriorate to the improvement of audit quality.

2. Auditor Rotation (AR) was found to have a significant impact in determining the correlation effect of audit independence in audit quality ( $\beta = 0.004$ ) and the test also shows that audit rotation promotes a significant rise of 12% ( $P = 0.120$ ) in audit quality which is fundamental in promoting accounting practice.
3. Audit Intimidation (AI) produces a significant impact in determining the extent of audit quality (P- value – 0.000) and also shows that audit intimidation has a negative effect of ( $\beta - \text{Value}$ ) 0.048 which shows a reduction in quality of audit exercise when there is an intimidating act in audit activities.
4. The last finding of the study is on the effect of both external and internal auditor independence on audit quality. The regression test shows that both variables have a significant impact on addressing the quality of the audit exercise (P-value – 0.000). The data also show that independent internal auditors perform better than the external auditor when promoting audit quality ( $\beta - \text{Value}$  -0.531) showing a negative value in external auditor exercise.

### **5.3. CONCLUSION OF THE FINDINGS**

Audit independence is a well-sought topic undertaken by researchers to understand the importance of audit independence in audit quality. The regression shows that auditor rotation only contributes positively to audit quality while the two other variables audit familiarity, and audit intimidation have a negative effect on audit quality. The last variables considered show that the test carried out put more emphasis on internal audit independence than external auditor has a tool in promoting audit quality.

### **5.4. RECOMMENDATION**

According to the output of the tested result this study recommends;

1. Firstly since the regression model shows that audit familiarity has a negative significant effect on audit quality (P-value – 0.000) and the  $\beta$  value of (- 0.014) shows that familiarity among management will hinder the organization's audit progress. PWC Bulletin (2023) on CBN Corporate Governance Guideline identified the independence of the auditor as an integral tool in audit quality the bulletin signifies that management should not interfere in audit committee affairs such as the appointment of auditors etc..
  - i. “Functions of the Board Risk Management Committee BRMC and the Board Audit Committee (BAC) are not to be combined for Commercial, Merchant and Non-Interest Banks according to Section 6.10 of the Guidelines.”
  - ii. “Executive Compliance Officers (ECO) are prohibited from combining their responsibility with income generating activity according to Section 15.1 of the guidelines.”

Uadiala (2012) indicates that audit independence is a tool for increasing firm performance in terms of financial records and auditing. He also analyzed the importance of separating the work of the audit committee from the board member's general operation and also separating the hired auditors during audit activities from the interference of executive management.

This study recommends that accounting professional institutions such as (ICAN) should introduce a law that will increase the compulsory audit activities clause without the interference of management also companies should spell out the function and aims of the office of management and accounting desk differently and clearly to reduce interference in audit activities.

2. Audit Rotation as viewed by the result shows that it helps to improve audit quality P - value (0.004) and  $\beta$  value of (0.120) according to Corporate Governance of Nigeria (2018) external audit rotation has been a thing discussed more often in improving audit quality. KPMG highlights and implication of corporate governance (2023) highlights the auditor rotation process introduced in the corporate governance.
  - i. ” External audit firms may be retained for no longer than ten years continuously and may not be considered for reappointment until after a seven-year period after disengagement. Where an external auditor’s tenure has already exceeded ten years, such auditor should cease to hold office as an auditor of the company at the next Annual General Meeting from the commencement of the Code.”

This study will recommend the continuous practice of office rotation by companies and secondly, this study will encourage the shortening of the auditor rotation period to at least 5 years to eradicate auditor familiarity completely.

3. Auditor intimidation has been shown when practice has a significant but negative impact on audit quality with (P-value (0.000),  $\beta$  (-0.048) which show a negative P-Value which indicates it leads to a 48% fall in audit quality when there is intimidation between the management and auditor.

This study recommends a thorough and spelled out duties of the office of the accounting and executive management should be put in place by the Board of Governance.

4. The study test proves internal auditors as vital tools in audit quality than the external auditor. The study shows that internal auditors should be independent of other authorities recognized in an organizational setup. KPMG highlights and implication

of corporate governance (2023) indicate the importance of internal auditors as illustrated in the Corporate Governance Practice 2018;

- i. "Management must make sure that internal controls over financial reporting are sufficiently built to significantly lower the possibility of errors and misstatements in a company's financial statements."
- ii. "The scope of work and audit plan for internal audit to include ensuring the structure and efficacy of the business's internal control over financial reporting. It might be necessary to update Internal Audit's methodology to incorporate methods and strategies for testing these controls. In order to provide this guarantee, the audit committee must also make sure internal audit has enough resources and expertise. If there are resource or skill shortages, they must turn to outside consultants."
- iii. "The outcome of these reviews will serve as the foundation for the audit committee report that the Code recommends, which may be provided to outside auditors for additional assessment and confirmation prior to being included in the annual report."

The study recommends that internal auditors should be independent from other offices and desks and internal auditors should be equipped with available resources and also have the full support of the audit committee in taking care of revenue transaction records in an organization.

## **5.5. RECOMMENDATION FOR FURTHER STUDIES**

This study is still without some gaps and limitations just like other previous studies. This study will advise area for further recommendations for researchers who intend to undertake a survey like this;

1. Further studies can focus on introducing more variables that are not part of the variables used in this thesis to represent audit independence in gaining wider knowledge and experience.
2. Further studies should also introduce more statistical measuring tools in measuring accumulated data to provide different approaches to data testing and analysis.

## **5.6. CONTRIBUTION TO KNOWLEDGE**

This study contributes to knowledge in the following ways;

1. The study helps widen knowledge of the accounting profession and management on those activities that affect audit independence negatively which can hinder audit quality.
2. The studies also help to improve understanding of organizational setup especially audit committee and what the committee should focus on as their aim.
3. The studies also speak volumes on the importance of separating the duties and operation of the board of corporate governance from executive management and importantly executive management from the accounting and audit office.
4. The studies also discuss the provision of vital tools to the internal auditor to help make their work and operation effective. Thereby, encouraging audit quality.

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