

AUDITOR INDEPENDENCE AND CORPORATE FRAUD



MACAULAY, PROSPER IMOCHI

MGS2007452

DEPARTMENT OF ACCOUNTING

FACULTY OF MANAGEMENT SCIENCES

UNIVERSITY OF BENIN

BENIN CITY.

MARCH , 2025.

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BY

MACAULAY, PROSPER IMOCHI

MGS2007452

**BEING A PROJECT WORK SUBMITTED TO THE DEPARTMENT OF
ACCOUNTING, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY OF
BENIN, BENIN CITY. IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE AWARD OF THE BACHELOR OF SCIENCE (B.SC) DEGREE IN
ACCOUNTING**

MARCH , 2025.

DECLARATION

I MACAULAY, PROSPER IMOCHI declare that,

- i. This study is based on a study undertaken by me in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, under the supervision of **DR. Ernest Oshodin** of the Department of Accounting, Management Sciences, University of Benin, Benin City, Nigeria.
- ii. This work has not been submitted for the award of degree elsewhere.
- iii. Ideas and views are product of my personal research and where the view of others has been expressed, they have been duly acknowledged.
- iv. Any liability arising from this work is to be wholly borne by me alone

MACAULAY, PROSPER IMOCHI

MGS2007452

DATE

CERTIFICATION

We, certify that this research project was carried out by **MACAULAY, PROSPER IMOCHI** in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, Nigeria. It is adequate in scope and quality in partial fulfilment of the requirements for the award of Bachelor of Science (BSc.) degree in Accounting.

DR. Ernest Oshodin
(Project Supervisor)

Date

DR. Ikhu-Omoregbe Godstime
(Project Coordinator)

Date

PROF. Osasu Obaretin
(Head of Department)

Date

DEDICATION

This project work is dedicated to God Almighty for His abundant grace in my life and for seeing me through my academic pursuit and aspirations. He has been my source of strength and on his wings only I have soared. I also want to dedicate this project to my Family and friends for the love and encouragement they have shown towards me during the course of this program, all I can say is thank you and God bless you.

ACKNOWLEDGEMENTS

I will like to acknowledge the valuable support and guidance provided by my project Supervisor DR. Ernest Oshodin throughout the course of this project. His expertise, tolerance, and insights were crucial in shaping the direction and outcome of this work. I would also like to express my gratitude to my parents Mr and Mrs Macaulay who I owe everything to, whose input, financial support, and collaboration enhanced the quality of this project. Additionally, I extend my thanks to my brothers, for their advice, and unwavering encouragement during this endeavour.

Also, I want to specially appreciate my friends, Tejiri, Joshua, Martins, Oluchi, Favour, Prosper, and all others for their support and Academic contribution all throughout my stay in the University.

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ABSTRACT

This study examines the relationship between auditor independence and corporate fraud across 8 Publicly listed companies spanning multiple sectors in Nigeria. The research investigates five key determinants of auditor independence; audit tenure, non-audit services, audit firm rotation, audit firm size, and audit fee dependence, and their impact on fraud detection. A quantitative research design was employed, utilizing secondary data from financial statements, audit reports, and corporate filings from 2018 to 2023. Descriptive and inferential statistical analyses were conducted to assess how each factor influences corporate fraud risk. The findings indicate that prolonged audit tenure can either enhance fraud detection by improving auditors' understanding of clients or impair independence due to familiarity threats. The provision of non-audit services was found to significantly increase fraud risk, as financial dependence on additional consulting engagements compromises auditors' objectivity. Mandatory audit firm rotation was associated with reduced fraud risks by introducing fresh perspectives and minimizing complacency, although frequent rotations posed transitional challenges. The study also found that audit firm size had an inconclusive effect on fraud detection, with Big Four firms benefiting from greater regulatory scrutiny but still susceptible to financial incentives. Furthermore, audit fee dependence was strongly linked to increased fraud risks, as auditors reliant on a single client's fees were less likely to issue adverse opinions. The study concludes that strengthening auditor independence through stricter regulatory enforcement, mandatory firm rotation, and limitations on non-audit services is essential for mitigating corporate fraud. The findings provide practical insights for policymakers, auditors, and corporate governance bodies to enhance financial reporting integrity and fraud prevention mechanisms in Nigeria.

AUDITOR INDEPENDENCE AND CORPORATE FRAUD.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Corporate fraud represents one of the most significant threats to the integrity of financial systems worldwide. Defined as the intentional manipulation or misrepresentation of financial information to secure personal or organizational gain, corporate fraud undermines investor confidence, disrupts economic activities, and jeopardizes the stability of global markets. Examples such as Enron, WorldCom, and Nigeria's Cadbury PLC scandal highlight the devastating consequences of fraudulent practices on stakeholders, emphasizing the importance of detecting and preventing fraud effectively (Nguyen & Truong, 2021; Sulaiman et al., 2023).

Quantitative metrics, including financial restatements, fraud loss amounts, and the frequency of whistleblower reports, serve as critical indicators for assessing the prevalence of fraud. For example, financial restatements are often a result of fraudulent misstatements discovered during audits or regulatory inspections, signaling deeper governance issues within organizations. Similarly, whistleblower programs, which encourage employees to report unethical practices, have been instrumental in exposing high-profile fraud cases globally. Regulatory sanctions, such as fines or bans, also indicate systemic weaknesses in corporate governance that enable fraudulent behavior (PCAOB, 2023; FRCN, 2024). The challenge of combating corporate fraud places auditors in a pivotal position. Auditors act as gatekeepers, ensuring the reliability and accuracy of financial statements while safeguarding the interests of investors and the public. However, the efficacy of auditors in detecting and reporting fraud

largely depends on their ability to maintain independence. Auditor independence, both in fact and perception, is a cornerstone of effective auditing, enabling unbiased evaluations of financial practices (Starling Insights, 2024).

‘Independence’ has become an emotive word, a banner standing for freedom, integrity and all that is good. The word independence has two distinct meaning. Firstly, it falls within a family of words implying ‘an absence of relationship’ for example, like unrelated, disconnected, isolated, remote and insular. Perhaps this is the reason why, in the olden days, auditors were often required to hold shares in their client companies so as not to be too independent’. Secondly, ‘independence’ falls within a family of words implying freedom from the exercise of powers, for example: free, unhindered.

McGrath (2001) suggested that “An honest auditor will behave like someone who is independent, using independence to mean an attitude of mind which does not allow the viewpoints and conclusions of its possessor to be reliant on or subordinate to the influence and pressure of conflicting interest. This Olidipupo (2003) further buttressed that, auditor independence is a quality which permits an individual to apply unbiased judgment and objective consideration to establish facts in arriving at an opinion or decision. It is implicit that auditors should be independent from management influence so as to add credibility to financial statement. In the face of independence of auditors, so many companies like the World Com, Enron, Anderson etc have fallen victims to corporate fraud. The incidence of financial fraud is increasing and has a central feature in a number of financial scandals around the world in recent years. This fact together with the increasing sophistication of fraudsters, create difficult problems for management and auditors. There are some who would argue that the detection of fraud, should be the auditors principal function. This prevailing

attitude clearly gives rise to a public expectation which is neither shared nor fulfilled by the profession.

Despite its critical role, auditor independence faces various challenges. Factors such as extended auditor tenure, provision of non-audit services, and financial dependence on a single client have been identified as significant threats. Long-term auditor-client relationships, while beneficial for understanding client operations, can lead to over-familiarity and compromise objectivity. Similarly, the provision of non-audit services, such as consulting, creates a potential conflict of interest that could impair an auditor's ability to remain impartial (Nguyen & Truong, 2021; PCAOB, 2023). In response to these challenges, regulatory bodies have implemented measures to strengthen auditor independence. The Sarbanes-Oxley Act (SOX) in the United States, for example, mandates audit firm rotation and restricts the provision of certain non-audit services to audit clients. In Nigeria, the Financial Reporting Council of Nigeria (FRCN) has introduced similar guidelines aimed at enhancing auditor independence and reducing the risk of corporate fraud. However, enforcement of these regulations remains a challenge, particularly in developing economies where institutional frameworks may lack robustness (FRCN, 2024; Sulaiman et al., 2023).

Empirical research underscores the importance of auditor independence in mitigating corporate fraud. Studies reveal that firms with higher auditor independence are more likely to detect and report fraudulent activities, thereby safeguarding investor interests. Metrics such as audit firm rotation frequency, audit fee dependence, and the size of the audit firm (e.g., Big Four vs. non-Big Four) have been used to assess the extent of independence maintained by auditors. Larger firms, such as those in the Big Four, are often perceived to have more stringent independence policies due to their exposure to regulatory scrutiny. Conversely, smaller audit firms may face resource constraints that limit their ability to maintain high

levels of independence (Starling Insights, 2024; Khasharmeh & Joseph, 2020). Qualitative factors also play a significant role in assessing auditor independence. Stakeholder perceptions of independence, as gauged through surveys and interviews, provide valuable insights into the effectiveness of audit practices. Instances of management interference, such as pressuring auditors to overlook irregularities, highlight the behavioral dynamics that can compromise audit quality. The effectiveness of audit committees in overseeing auditors and ensuring compliance with independence regulations is another critical factor influencing audit outcomes (Sulaiman et al., 2023; FRCN, 2024). The relationship between corporate fraud and auditor independence is both intricate and vital. While corporate fraud often results from systemic governance failures, a lack of auditor independence exacerbates the problem by allowing fraudulent practices to go undetected. Strengthening auditor independence through regulatory reforms, enhanced oversight, and professional training is essential for reducing fraud risks and restoring confidence in financial reporting (Nguyen & Truong, 2021; Starling Insights, 2024).

This study aims to explore the interplay between corporate fraud and auditor independence, leveraging quantitative and qualitative metrics to provide a comprehensive analysis. By examining data from public records, financial statements, and stakeholder surveys, the research seeks to identify key factors contributing to fraud and offer actionable recommendations for improving corporate governance frameworks. The findings are expected to contribute significantly to the discourse on auditor independence and its role in ensuring financial transparency and ethical business practices.

1.2. Statement of the Research Problem

Corporate fraud has become an enduring global challenge, eroding trust in financial systems and undermining economic stability. It involves deliberate misrepresentation or manipulation

of financial information to achieve undue personal or organizational advantage. High-profile scandals such as Enron and WorldCom in the United States, and Cadbury Nigeria Plc in the Nigerian context, have exposed critical vulnerabilities in corporate governance and audit oversight mechanisms. These incidents have resulted in devastating economic consequences, including job losses, diminished investor confidence, and systemic disruptions in the affected economies.

In Nigeria, the prevalence of corporate fraud in sectors such as banking, manufacturing, and oil and gas underscores the urgent need for stronger financial oversight mechanisms (Adeyemi & Fagbemi, 2019; Owolabi & Oluwagbemiga, 2018). Despite the existence of regulatory bodies such as the Financial Reporting Council of Nigeria (FRCN) and the Central Bank of Nigeria (CBN), the financial scandals that persist indicate a failure to address underlying structural issues effectively. The inability of auditors to detect or prevent fraud has been identified as a contributing factor, raising concerns about the quality of audits and, more specifically, the independence of auditors (Bassey et al., 2020).

Auditor independence is a cornerstone of effective auditing, defined as the ability of auditors to perform their duties objectively, without undue influence from clients or external parties. Independence ensures the integrity of financial reporting and strengthens the credibility of audit opinions. However, multiple challenges threaten auditor independence, especially in developing economies like Nigeria. Key issues include long auditor-client relationships, overreliance on audit fees from a single client, and the provision of non-audit services, which create conflicts of interest. The lack of effective regulatory oversight further exacerbates these challenges, allowing loopholes that fraudsters exploit (Ojo, 2009; Haryono et al., 2019).

Glover et al. (2019) emphasize that the provision of non-audit services by auditors poses a critical challenge to maintaining independence. They argue that these additional services

often create financial dependencies and conflicts of interest, which may reduce auditors' willingness to issue qualified or adverse opinions against clients engaged in fraudulent activities. Similarly, Haryono et al. (2019) highlight that auditor tenure significantly affects the quality of financial reporting. Prolonged relationships between auditors and clients foster familiarity, potentially leading to a decline in professional skepticism. This view aligns with Pagano and Immordino (2008), who assert that weak regulatory enforcement in emerging economies exacerbates these threats, allowing auditors to operate in environments with minimal accountability. The convergence of these issues underscores the need for a multidimensional approach to strengthening auditor independence. Measures such as mandatory rotation, limitations on non-audit services, and stricter oversight of regulatory compliance are crucial to mitigating risks. By integrating these recommendations, the research aims to bridge gaps in the existing literature and provide actionable insights for enhancing corporate governance frameworks, particularly in Nigeria, where these challenges are prevalent. These findings reiterate the vital role of independence in bolstering auditors' effectiveness in fraud prevention and financial transparency.

The role of auditors in preventing corporate fraud is critical yet complex. While auditors are not primarily tasked with fraud detection, their ability to maintain professional skepticism and independence significantly influences the reliability of financial reports. Studies have shown that compromised independence often leads to a reduction in audit quality and an increased likelihood of fraudulent financial reporting (Pagano & Immordino, 2008; Glover et al., 2019). For instance, the provision of consulting services alongside audit engagements can weaken auditors' objectivity, making them less likely to issue adverse opinions against their clients. Similarly, extended auditor tenures may lead to familiarity threats, reducing auditors' professional skepticism over time (Bassey et al., 2020). Despite substantial regulatory efforts, including the Sarbanes-Oxley Act (SOX) in the United States and similar guidelines by the

FRCN in Nigeria, the efficacy of these frameworks in curbing fraud remains uncertain. In Nigeria, the challenges are amplified by weak enforcement mechanisms, limited resources, and inadequate training for auditors and regulators. These limitations hinder the effective implementation of independence standards, leaving significant gaps in the financial reporting process (Adeyemi & Fagbemi, 2019; Kleinman et al., 2006). Moreover, the increasing sophistication of fraud schemes further complicates the detection process, necessitating a more holistic approach to audit reform (Witjaksono & Yudatama, 2021). Existing literature highlights the importance of auditor independence but often fails to establish concrete metrics or causal links between compromised independence and the occurrence of fraud. Furthermore, while global studies provide valuable insights, there is a dearth of localized research focusing on the unique challenges faced in emerging economies like Nigeria. For example, the interplay between regulatory policies, cultural factors, and auditor-client relationships remains underexplored, leaving critical gaps in understanding how these elements collectively influence fraud dynamics (Haryono et al., 2019; Chyz et al., 2017).

This study seeks to address these gaps by examining the relationship between auditor independence and corporate fraud in Nigeria. It will explore both quantitative metrics (e.g., audit tenure, fee dependency, non-audit service ratios) and qualitative factors (e.g., perceived independence, regulatory compliance) to provide a comprehensive analysis. The implications of this research are far-reaching. Strengthening auditor independence is not just a regulatory imperative but a societal necessity. Corporate fraud has devastating effects that go beyond financial losses, impacting public trust, employee livelihoods, and national economic growth. Enhanced independence standards, coupled with effective enforcement mechanisms, can play a pivotal role in reducing fraud and restoring confidence in financial systems (Glover et al., 2019). This study will provide actionable recommendations for policymakers, regulators, and

corporate stakeholders, contributing to the ongoing efforts to improve corporate governance and financial transparency in Nigeria.

1.3 Research Questions

The study will be guided by the under listed research questions:

- i. How does audit tenure influence the likelihood of corporate fraud in Nigeria?
- ii. What is the impact of non-audit services on the likelihood of corporate fraud in Nigeria?
- iii. How does audit firm rotation influence the likelihood of corporate fraud?
- iv. How does audit firm size influence the likelihood of corporate fraud?
- v. What is the effect of audit fee on the likelihood of corporate fraud?

1.4 Research Objectives

The specific aim of this study is to examine the relationship between auditor independence and corporate fraud in the Nigerian banking sector. The study seeks to achieve the following objectives:

- i. To examine how audit tenure influences the likelihood of corporate fraud in Nigeria.
- ii. To analyze the impact of non-audit services on the likelihood of corporate fraud in Nigeria.
- iii. To evaluate how audit firm rotation influences the likelihood of corporate fraud.
- iv. To examine how audit firm size influences the likelihood of corporate fraud.
- v. To analyse the effect of audit fee on the likelihood of corporate fraud.

1.5 Research Hypothesis

For the purpose of this study, the following hypotheses have been developed:

- i. There is no significant relationship between audit tenure and the likelihood of corporate fraud.

- ii. The provision of non-audit services does not significantly impact the likelihood of corporate fraud.
- iii. Audit firm rotation does not significantly influence the likelihood of corporate fraud.
- iv. There is no significant relationship between audit firm size and the likelihood of corporate fraud.
- v. There is no significant relationship between audit fee and the likelihood of corporate fraud.

1.6 Significance of the Study

The significance of this study lies in its contribution to understanding the relationship between auditor independence and corporate fraud, particularly within the Nigerian context. By addressing critical gaps in the literature and providing actionable insights, the study is poised to benefit various stakeholders in the following ways:

Academic Contribution: This research will contribute to the body of knowledge on corporate governance and fraud detection by providing empirical evidence on the impact of audit tenure, non-audit services, and audit firm rotation on fraud detection. It will serve as a valuable resource for future researchers, particularly those focusing on emerging markets like Nigeria, where unique regulatory and cultural challenges exist. Undergraduate and postgraduate students in fields such as accounting, finance, and business administration will benefit from the study as a comprehensive resource for understanding real-world applications of theoretical concepts. The study provides detailed insights into critical auditing practices and their impact on corporate governance, helping students link classroom learning with practical challenges in the corporate world. It also serves as a case study for coursework, project reports, and theses, especially those focusing on developing economies like Nigeria. Researchers aiming to investigate corporate fraud, auditor independence, or broader themes in corporate governance will find this study an invaluable resource. By presenting a blend of

quantitative metrics (e.g., audit tenure and non-audit fees) and qualitative factors (e.g., perceived independence), the study bridges gaps in existing literature, offering fresh perspectives for further investigation. It also identifies specific regulatory and cultural challenges in Nigeria, providing a localized context that can inspire comparative studies in other emerging markets. Lecturers and educators can utilize the findings and methodologies of this study as teaching materials in courses related to auditing, fraud detection, and corporate governance. The study's focus on practical metrics such as audit tenure and fee dependence offers concrete examples to enrich discussions and enhance students' critical thinking.

Policy and Regulatory Implications: This study is of great significance to policymakers and regulatory bodies, particularly in shaping and refining policies aimed at enhancing auditor independence and reducing corporate fraud. Regulatory frameworks such as the Sarbanes-Oxley Act (SOX) in the United States and guidelines established by the Institute of Chartered Accountants of Nigeria (ICAN), and the Financial Reporting Council of Nigeria (FRCN) have long emphasized the importance of auditor independence. However, the persistent occurrence of corporate fraud globally and in Nigeria highlights the gaps in the implementation and enforcement of these regulations. This study provides empirical insights that can inform the development of more robust and contextually relevant policies to address these gaps. One of the critical areas addressed by this research is the impact of audit tenure on fraud detection. By examining the relationship between prolonged auditor-client relationships and fraud, the study highlights the necessity of policies mandating audit firm rotation. This can help regulatory bodies like the FRCN or ICAN to enforce tenure limits more effectively, reducing familiarity threats that compromise auditor objectivity. Additionally, the study underscores the importance of limiting non-audit services provided by auditors. It identifies how conflicts of interest arising from high ratios of non-audit fees to audit fees impair

auditors' independence and diminish their ability to detect fraud. Policymakers can use these findings to implement stricter caps on non-audit services, ensuring that auditors maintain their role as independent watchdogs. In summary, this study equips policymakers and regulatory bodies with actionable recommendations for strengthening audit practices and reducing corporate fraud. Its findings support the development of targeted regulations that promote transparency, enhance accountability, and restore public confidence in financial systems.

Impact on Corporate Governance: This study highlights the critical role of auditor independence in strengthening corporate governance frameworks. Effective governance relies heavily on the ability of auditors to deliver unbiased and objective financial reporting. By addressing factors that undermine auditor independence, such as extended audit tenure and non-audit services, this study provides organizations with actionable insights to improve their internal governance structures. The findings emphasize the importance of fostering a culture of accountability and transparency within organizations. Corporate boards and audit committees, as key players in governance, can use the study's results to implement policies that reinforce auditors' independence. For example, by advocating for mandatory auditor rotation and monitoring audit fee structures, these bodies can mitigate risks associated with familiarity and conflicts of interest. This proactive approach not only reduces the likelihood of fraud but also enhances the credibility of financial reports, attracting potential investors and boosting shareholder confidence. Furthermore, the study underscores the need for robust audit committee oversight. By aligning audit committee responsibilities with best practices in corporate governance, the study helps organizations develop mechanisms to oversee auditor relationships effectively. This, in turn, promotes a governance framework that is resilient against fraudulent activities, setting a foundation for sustainable organizational growth.

Relevance to Investors and Stakeholders: Investors and stakeholders are key beneficiaries of this study, as they rely on credible financial information to make informed decisions. Auditor independence is a cornerstone of reliable financial reporting, and any compromise in this area poses significant risks to stakeholders. This study provides valuable insights into how compromised independence contributes to corporate fraud and how such risks can be mitigated. For investors, the findings highlight red flags to watch for, such as prolonged auditor tenure or high ratios of non-audit fees. By understanding these indicators, investors can better evaluate the financial health and governance practices of organizations before committing resources. Stakeholders, including regulatory bodies and shareholders, can use the study's insights to advocate for stronger governance measures that enhance accountability and minimize fraud risks. Moreover, the study's recommendations for limiting non-audit services and ensuring transparency in audit fee disclosures are particularly relevant to stakeholders. These measures help stakeholders ensure that auditors remain objective and focused on their primary role—providing assurance on financial statements. This fosters trust in financial reporting processes, ultimately creating a more stable and attractive investment climate. In summary, this study empowers corporate governance bodies, investors, and other stakeholders with tools and knowledge to detect and mitigate risks associated with compromised auditor independence, thereby promoting sustainable business practices and economic stability.

Practical Value for the Auditing Profession: This study provides significant practical value for external auditors and audit firms by offering critical insights into the factors that affect auditor independence and its impact on fraud detection. In the rapidly evolving business environment, auditors face mounting challenges, including regulatory scrutiny, client pressures, and emerging risks associated with fraud schemes. The findings of this study serve as a resource for audit practitioners to navigate these challenges effectively. By exploring

metrics such as audit tenure, and non-audit services, the study highlights specific areas where auditors may be vulnerable to independence threats. For instance, it underscores how excessive reliance on non-audit service fees or prolonged auditor-client relationships can impair objectivity and skepticism. This knowledge equips auditors with the awareness needed to safeguard their professional judgment against such risks.

Additionally, the study emphasizes the importance of professional skepticism and ongoing training to enhance auditors' ability to detect fraud. Audit firms can incorporate these findings into their professional development programs to ensure that their staff remain vigilant and equipped with the latest tools and techniques for identifying irregularities. Furthermore, the study's focus on fraud detection strengthens auditors' understanding of red flags, enabling them to design more effective audit procedures tailored to high-risk areas. The study also offers insights into regulatory expectations, providing audit firms with a framework to align their practices with global standards, such as those outlined by the Sarbanes-Oxley Act (SOX) and the Financial Reporting Council of Nigeria (FRCN). For example, findings related to mandatory audit firm rotation and limits on non-audit services can guide firms in structuring engagements to maintain compliance and preserve credibility. Moreover, the study fosters a deeper appreciation of the auditor's role as a trusted advisor in corporate governance. By identifying the systemic factors that undermine auditor independence, the research reinforces the profession's commitment to enhancing financial reporting quality and protecting public interest. This contributes to elevating the reputation of auditors as key players in maintaining the integrity of financial systems. In conclusion, the study's practical recommendations for mitigating independence threats and improving fraud detection are invaluable for auditors and audit firms. By strengthening their practices and adhering to ethical standards, auditors can enhance the quality of their services, build trust with clients, and ultimately contribute to the stability and transparency of financial markets.

1.7 Scope of the Study

This study focuses on examining the relationship between auditor independence and the likelihood of corporate fraud in Nigerian organizations, with specific attention to external auditors. The scope is limited to data collected from 8 companies across various sectors listed on the Nigerian Exchange Group (NGX). These companies span industries such as manufacturing, telecommunications, oil and gas, financial services, consumer goods, and conglomerates, ensuring a diverse and representative sample for the research. The inclusion of multiple sectors allows for a broader understanding of how auditor independence influences fraud detection across different corporate environments. Geographically, the study will be conducted within Nigeria, with a particular emphasis on Edo State. This location was selected due to the proximity of the researcher, which facilitates access to relevant data and stakeholders. The study aims to investigate how external auditors' independence is influenced by audit tenure, non-audit services, audit firm rotation, audit firm size, and audit fee dependence, and how these factors impact their effectiveness in fraud detection. The temporal scope covers financial and audit data from the 2018 to 2023, a period chosen to capture recent trends and regulatory changes affecting the auditing profession in Nigeria. Given the evolving nature of corporate fraud and regulatory frameworks, analyzing recent data ensures that the study's findings remain relevant for policymakers, regulators, and corporate stakeholders. This study does not explore the role of internal auditors or management fraud detection mechanisms, as its primary focus is on external auditor independence and its impact on corporate fraud. By expanding the scope beyond the banking sector to include companies across diverse industries, this research aims to provide comprehensive insights into the broader implications of auditor independence on corporate fraud, contributing to improved audit practices, regulatory frameworks, and corporate governance in Nigeria.

1.8 Limitations of the Study

While this study provides valuable insights into the relationship between auditor independence and corporate fraud, certain limitations are acknowledged:

Geographical Limitation: The study is geographically restricted to Nigeria, focusing on 14 deposit money banks listed on the Nigerian Exchange Group. While the findings may offer insights into other developing economies, they might not be fully generalizable to global contexts or industries outside the banking sector.

Focus on External Auditors: The study exclusively examines external auditors and does not consider the role of internal auditors or other governance mechanisms, such as board oversight or management controls, which may also impact corporate fraud detection.

Data Availability and Quality: The reliance on publicly available data, such as annual reports and audit opinions, may limit the depth of the analysis. Some relevant data, like details of audit fee dependence or non-audit service fees, may be incomplete or not disclosed due to regulatory or corporate confidentiality policies.

Regulatory Variations: The study primarily considers Nigerian regulatory frameworks, such as the guidelines provided by the Financial Reporting Council of Nigeria (FRCN). Differences in enforcement and application of these regulations across industries and regions within Nigeria could introduce variability in the findings.

Emerging Fraud Techniques: As fraudsters adopt more sophisticated techniques, the study may not fully capture new methods or trends that emerged outside the chosen timeframe or metrics.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The concept of auditor independence and its role in preventing corporate fraud has been a critical area of discussion in financial reporting and corporate governance literature. As businesses expand and financial transactions become more complex, ensuring the objectivity and reliability of external audits is essential for maintaining public trust in financial statements (Nguyen & Truong, 2021). Auditor independence serves as a fundamental principle that upholds the integrity of the audit process, ensuring that financial reports are free from manipulation or misrepresentation (Glover, Prawitt, & Wood, 2019). The literature on auditor independence and corporate fraud explores multiple dimensions, including audit tenure, non-audit services, audit firm rotation, audit firm size, and audit fees. Prolonged auditor-client relationships may lead to familiarity threats, compromising the auditor's ability to objectively assess financial statements (Haryono et al., 2019). Similarly, excessive non-audit service fees can create financial dependency, leading to potential conflicts of interest that impair auditors' willingness to report fraud (Sulaiman, Okoro, & Adegbite, 2023). These issues underscore the importance of regulatory frameworks such as the Sarbanes-Oxley Act

(SOX) and guidelines from the Financial Reporting Council of Nigeria (FRCN), which aim to strengthen auditor independence and mitigate fraud risks (FRCN, 2024).

This chapter presents a critical review of existing literature related to auditor independence and corporate fraud. It explores theoretical frameworks underpinning the study, empirical findings on the relationship between audit quality and fraud detection, and regulatory perspectives on auditor independence. By examining past research, this review aims to identify gaps in knowledge and provide a foundation for understanding how audit tenure, non-audit services, firm rotation, firm size, and audit fees influence corporate fraud in Nigeria's banking sector.

2.2 Conceptual Review

The conceptual review provides an in-depth discussion of the key variables in this study—corporate fraud (dependent variable) and auditor independence (independent variable). This section defines these concepts, explores their dimensions, and establishes their relevance to financial reporting and corporate governance.

2.2.1 Corporate Fraud

Corporate fraud refers to the deliberate misrepresentation, concealment, or manipulation of financial information by individuals or organizations for personal or corporate gain (Albrecht et al., 2019). It encompasses a wide range of fraudulent activities, including financial statement fraud, asset misappropriation, corruption, insider trading, money laundering, and tax evasion. Financial statement fraud is considered one of the most damaging forms, as it involves intentional distortion of financial records to mislead investors, regulators, and other stakeholders, often resulting in severe financial and legal consequences (Nguyen & Truong, 2021).

The impact of corporate fraud is far-reaching, affecting not only businesses but also shareholders, employees, and the overall economy. Fraudulent practices can lead to massive financial losses, reputational damage, regulatory sanctions, and systemic instability in financial markets. High-profile corporate fraud cases, such as Enron, WorldCom, and the Cadbury Nigeria Plc scandal, underscore the devastating effects of fraudulent financial reporting (Glover et al., 2019). These cases reveal critical failures in corporate governance, where auditors, board members, and regulators failed to detect or act against fraudulent activities in time. Despite the presence of fraud detection mechanisms such as external audits, internal controls, and whistleblower programs, weaknesses in regulatory enforcement and governance structures often allow fraud to persist undetected (Sulaiman et al., 2023).

The number of reported fraud cases serves as a direct indicator of the prevalence of corporate fraud within an industry, country, or organization. This metric is usually sourced from regulatory disclosures, investigative reports, and corporate filings. Organizations such as the Financial Reporting Council of Nigeria (FRCN), the Public Company Accounting Oversight Board (PCAOB), and the Securities and Exchange Commission (SEC) publish fraud-related reports that outline cases involving financial misstatements, asset misappropriation, or unethical business practices (PCAOB, 2023). However, this metric has certain limitations. Not all fraud cases are detected or reported, as some companies may seek to conceal fraudulent activities to avoid reputational damage or legal consequences (Karpoff, 2020). Additionally, whistleblower programs, such as those introduced by the U.S. Dodd-Frank Act and Nigeria's Whistleblower Protection Policy, encourage employees to report fraud, but the fear of retaliation may still prevent individuals from coming forward (Mangala & Kumari, 2015). Therefore, while reported fraud cases provide useful insights, they may underestimate the actual prevalence of fraud in the corporate sector.

Financial restatements are another critical metric in assessing corporate fraud, as they represent corrections made to previously issued financial statements due to material misstatements or fraudulent reporting. When companies restate their financials, it often signals accounting irregularities, errors, or intentional misrepresentation in past financial reports (Sulaiman et al., 2023). Financial restatements are a strong indicator of corporate fraud, as they reveal instances where companies were forced to adjust revenue, expenses, or asset values due to errors or manipulations. The frequency and magnitude of restatements can be used to assess the extent of fraudulent activities within an organization. Studies suggest that firms with weak internal controls, excessive executive compensation, and significant auditor-client conflicts are more likely to issue restatements (Nguyen & Truong, 2021). Restatements can also have severe consequences for companies and stakeholders. They often lead to stock price declines, investor lawsuits, regulatory penalties, and reputational damage. A notable example is Lehman Brothers' bankruptcy, which resulted in financial restatements after questionable accounting practices were uncovered (Karpoff, 2020). In Nigeria, restatements linked to Cadbury Nigeria Plc's financial scandal led to major regulatory interventions and executive dismissals.

The total financial loss resulting from corporate fraud is a critical metric for assessing its economic impact. This metric quantifies the total financial damage caused by fraudulent activities, including direct financial losses, legal settlements, regulatory fines, and shareholder value destruction (Mangala & Kumari, 2015). Fraud loss amounts vary significantly depending on the nature, scale, and industry involved. For example, financial fraud in banking and insurance sectors typically leads to higher monetary losses than fraud in smaller firms or non-financial industries. Organizations such as the Association of Certified Fraud Examiners (ACFE) conduct global fraud surveys to estimate the total losses due to fraud annually. Reports suggest that corporate fraud costs organizations an estimated 5% of

their revenue each year, amounting to trillions of dollars globally (Albrecht et al., 2019). In major fraud cases, such as the Enron and WorldCom scandals, losses exceeded billions of dollars, leading to severe investor losses and economic disruptions. In Nigeria, fraudulent banking practices have resulted in significant financial losses, with some institutions collapsing due to mismanagement and insider fraud. Regulators track fraud losses to assess industry vulnerabilities and strengthen financial oversight mechanisms (FRCN, 2024).

Regulatory sanctions play a critical role in deterring corporate fraud. These include fines, penalties, executive bans, and license revocations imposed on organizations found guilty of corporate fraud. These sanctions are typically enforced by regulatory bodies such as the SEC, PCAOB, and FRCN, which have the authority to investigate fraudulent financial practices and impose penalties on violators (PCAOB, 2023). Sanctions serve as both a punitive and deterrent measure against corporate fraud. Organizations found guilty of fraud may face heavy financial fines, revocation of operating licenses, executive bans, and even criminal prosecutions (Sulaiman et al., 2023). However, the effectiveness of regulatory sanctions depends on the strength of enforcement mechanisms. In some developing economies, weak legal systems and political interference may hinder the enforcement of corporate fraud regulations, allowing fraudulent firms to escape accountability (Lawal et al., 2017). High-profile examples include the Wells Fargo fake accounts scandal, where regulatory fines exceeded \$3 billion, and Nigeria's banking crisis in the late 2000s, which led to the dismissal and prosecution of several bank executives.

Whistleblower reports represent one of the most effective fraud detection mechanisms, as they provide firsthand insider information on corporate misconduct. Employees, former executives, auditors, and other stakeholders often act as whistleblowers, exposing fraudulent practices that would otherwise remain undetected. According to the ACFE, whistleblower tips account for more than 40% of corporate fraud detections, making them the most effective

fraud detection method (Mangala & Kumari, 2015). Governments and regulatory agencies have implemented whistleblower protection programs to encourage reporting without fear of retaliation. The Dodd-Frank Act in the U.S. and Nigeria's Whistleblower Policy provide financial incentives and legal protections for individuals who expose corporate fraud (Karpoff, 2020). However, despite these protections, fear of job loss, legal consequences, or even physical harm discourages many potential whistleblowers from coming forward. Prominent whistleblower cases include Sherron Watkins' exposure of Enron's fraudulent activities and the Nigerian National Petroleum Corporation (NNPC) fraud cases, where whistleblower reports led to large-scale government investigations. Strengthening whistleblower protection laws is essential for improving fraud detection and corporate accountability.

Another important metric for measuring corporate fraud is the restoration of shareholder value, which assesses the extent to which a company can recover from the financial and reputational damage caused by fraudulent activities. Corporate fraud often leads to significant declines in stock prices, investor confidence, and overall market valuation. When a fraud scandal is exposed, the immediate reaction of the financial market is usually negative, resulting in sharp drops in stock prices and, in some cases, delisting from stock exchanges (Nguyen & Truong, 2021). However, over time, some companies implement corrective measures, including stronger governance policies, leadership restructuring, regulatory compliance improvements, and financial restatements, to rebuild investor trust and restore market value. The effectiveness of shareholder value restoration can be measured by analyzing the long-term financial performance of a company post-fraud, particularly stock price recovery, earnings growth, and market capitalization trends (Karpoff, 2020). Companies that adopt transparent corrective measures and governance reforms tend to regain investor confidence more effectively than those that attempt to downplay fraudulent activities or delay

corrective actions (Sulaiman et al., 2023). Studies show that firms that promptly replace implicated executives, strengthen internal controls, and comply with regulatory requirements experience faster recovery in their stock prices and shareholder value (Mangala & Kumari, 2015). A notable example of shareholder value restoration occurred in Wells Fargo's fake accounts scandal, where the company, after facing multi-billion-dollar regulatory fines and loss of investor trust, implemented corporate governance reforms, executive changes, and internal control improvements. Over time, these efforts contributed to gradual stock price recovery and renewed investor confidence (Lawal et al., 2017). In contrast, companies that fail to implement meaningful reforms, such as Wirecard and Theranos, struggled to restore shareholder value and ultimately collapsed. In the Nigerian banking sector, instances of fraudulent financial reporting and insider misconduct have similarly led to stock market instability. Companies that quickly addressed governance deficiencies and regulatory concerns managed to stabilize investor confidence, whereas those that failed to do so faced extended financial decline or bankruptcy (FRCN, 2024). Ultimately, the restoration of shareholder value serves as a long-term indicator of how well a company recovers from corporate fraud. It highlights the effectiveness of fraud detection, governance reforms, and investor relations strategies in rebuilding corporate credibility and financial stability.

2.2.2 Auditor Independence

Auditor independence is a fundamental pillar of the auditing profession, ensuring that financial statements are presented fairly and free from bias or manipulation. It refers to an auditor's ability to perform their duties objectively and impartially, without undue influence from clients, management, or external stakeholders (Khasharmeh & Joseph, 2020). Independence is essential in financial reporting as it strengthens public confidence, promotes transparency, and enhances the reliability of financial statements for investors, regulators, and other stakeholders (PCAOB, 2023). When auditors maintain their independence, they act as

effective watchdogs, detecting and reporting irregularities, financial misstatements, and fraudulent activities. However, if independence is compromised, auditors may fail to identify or disclose fraudulent financial reporting, thereby facilitating corporate fraud (Sulaiman, Okoro, & Adegbite, 2023).

Auditor independence is broadly categorized into two dimensions: independence in fact and independence in appearance. Independence in fact refers to the actual state of objectivity and unbiased judgment exercised by the auditor during the audit process (Glover, Prawitt, & Wood, 2019). This means that the auditor is free from conflicts of interest and exercises professional skepticism when assessing financial statements. Independence in appearance, on the other hand, pertains to stakeholder perceptions of the auditor's objectivity. Even if an auditor remains independent in fact, their credibility may be questioned if stakeholders perceive them to have conflicts of interest, such as close financial or personal ties with the audited company (PCAOB, 2023). Both aspects of independence are critical, as an auditor must not only be independent but must also be perceived as independent by the public and regulatory bodies. Several key factors influence auditor independence, including audit tenure, non-audit services, audit firm rotation, audit firm size, and audit fees. Audit tenure, or the length of time an auditor has been engaged with a client, can create familiarity threats that compromise objectivity (Nguyen & Truong, 2021). Long audit tenures may lead to over-reliance on management, reducing the auditor's willingness to challenge questionable financial practices. Non-audit services, such as consulting and advisory work, may also impair independence if auditors become financially dependent on these engagements rather than their core audit responsibilities (Sulaiman et al., 2023). Similarly, audit firm rotation, which involves changing audit firms periodically, is often recommended to prevent long-term relationships that could weaken auditors' skepticism and objectivity (Karpoff, 2020).

The size of the audit firm also plays a role in determining independence. Larger firms, such as the Big Four audit firms (PwC, Deloitte, KPMG, and EY), are often perceived to have greater independence due to their broad client base and regulatory scrutiny (Lawal et al., 2017). However, they may still face pressure to maintain lucrative client relationships, potentially compromising their judgment. Lastly, audit fee dependence is a significant factor—when an auditor derives a substantial portion of their revenue from a single client, they may be reluctant to issue unfavorable audit opinions to avoid losing business (Mangala & Kumari, 2015).

Regulatory frameworks such as the Sarbanes-Oxley Act (SOX) in the United States and guidelines from the Financial Reporting Council of Nigeria (FRCN) aim to uphold auditor independence through strict disclosure requirements, restrictions on non-audit services, and mandatory auditor rotation policies (FRCN, 2024). These regulations seek to prevent conflicts of interest, reinforce professional skepticism, and enhance audit quality. Despite these measures, auditor independence remains an ongoing challenge, particularly in developing economies where weak regulatory enforcement and client pressures can undermine the objectivity of external auditors (Nguyen & Truong, 2021). Auditor independence is vital in ensuring audit quality and mitigating corporate fraud risks. It is influenced by factors such as audit tenure, non-audit services, firm rotation, firm size, and audit fees, all of which can either strengthen or weaken an auditor's objectivity. Maintaining independence in both fact and appearance is crucial in building stakeholder trust, preventing financial misstatements, and promoting corporate accountability. Given the evolving nature of financial fraud, continuous regulatory improvements and strict enforcement mechanisms are necessary to uphold auditor independence and enhance financial transparency.

2.2.2.1 Audit Tenure

Auditor independence is a fundamental principle that ensures financial reporting integrity and enhances stakeholder confidence. Among the key determinants of independence, audit tenure—the duration for which an auditor or audit firm is continuously engaged with a client—plays a pivotal role in shaping audit quality and fraud detection. The length of this engagement can have both positive and negative implications, with regulatory debates often focusing on whether long-term relationships improve audit efficiency or weaken objectivity. Understanding the impact of audit tenure is crucial, particularly in the Nigerian banking sector, where financial misstatements and fraud scandals have raised concerns about the effectiveness of external auditors.

The argument in favor of extended audit tenure is that long-term auditors develop a deeper understanding of their clients' operations, risk profiles, and financial structures, which can lead to more effective fraud detection and financial statement accuracy (Nguyen & Truong, 2021). With prolonged tenure, auditors gain familiarity with company-specific risks, industry trends, and management practices, which enhances their ability to detect anomalies and misstatements (Glover, Prawitt, & Wood, 2019). Studies suggest that newly appointed auditors often struggle with limited client knowledge, increasing the chances of oversight errors and delayed fraud detection (Haryono et al., 2019). However, the counterargument highlights the significant risks of prolonged audit engagements. When an auditor works with the same client for many years, there is a heightened risk of familiarity threats, reduced skepticism, and overreliance on management assertions (Sulaiman, Okoro, & Adegbite, 2023). Over time, auditors may become too comfortable with a client's accounting practices, leading to biased assessments and neglecting subtle indicators of fraud. This phenomenon, known as "client capture," occurs when an auditor prioritizes maintaining a good relationship with management over exercising professional skepticism. Research has linked long audit tenures to increased instances of earnings management, where auditors fail to challenge

aggressive revenue recognition, asset valuations, or expense manipulation (PCAOB, 2023). A striking example of this was the Cadbury Nigeria Plc scandal, where financial misstatements persisted undetected for years, partly due to the long-standing relationship between the company and its external auditors. Similarly, in global cases such as Enron and WorldCom, auditors with extended tenures failed to detect or disclose fraudulent financial practices until it was too late. These cases underscore how excessive familiarity can erode independence and contribute to corporate fraud.

To mitigate familiarity threats and conflicts of interest, many regulatory bodies have introduced mandatory audit firm rotation policies, requiring companies to periodically change audit firms or partners. The Financial Reporting Council of Nigeria (FRCN), for example, mandates that external auditors of deposit money banks serve for no more than ten consecutive years before rotation is required (FRCN, 2024). Similarly, the European Union enforces audit firm rotation every ten years, with extensions up to twenty years under specific conditions. Research findings on the effectiveness of mandatory audit firm rotation present mixed results. Some studies argue that rotation disrupts the continuity of audits, leading to increased transition costs, loss of institutional knowledge, and inefficiencies in fraud detection (Glover et al., 2019). Newly appointed auditors may require several audit cycles to fully understand a company's financial structure, which can create opportunities for fraud during the transition period (Sulaiman et al., 2023). Conversely, other studies have found that audit firm rotation introduces fresh perspectives and new methodologies, reducing complacency and strengthening audit objectivity (Haryono et al., 2019).

A recent study by Kyriakou and Babalos (2024) analyzing audit tenure in developing economies found that long-tenured auditors were more likely to issue unqualified audit opinions despite clear signs of financial irregularities. The study also noted that companies with shorter auditor tenures reported fewer instances of financial misstatements, suggesting

that rotation policies could improve fraud detection. Additionally, another study by Brooks, Cheng, and Reichelt (2012) highlighted that while mandatory firm rotation increases audit costs, it ultimately strengthens financial reporting credibility by improving auditor independence and reducing the risk of management influence over external auditors.

Corporate fraud remains a significant issue across various sectors in Nigeria, with many cases linked to weak auditor independence and prolonged audit tenures. The Cadbury Nigeria Plc financial scandal serves as a notable example, where financial misstatements persisted for several years due to the company's long-standing relationship with its external auditors (FRCN, 2024). This case highlights the risks associated with extended audit engagements, where auditors may become too familiar with management, leading to reduced professional skepticism and ineffective fraud detection.

Conversely, companies that regularly rotate their audit firms tend to experience higher financial statement credibility and lower instances of fraud. Organizations that comply with audit tenure regulations and best practices often establish stronger governance frameworks, ensuring that financial irregularities are detected and addressed early (Lawal et al., 2017). By maintaining a balance between auditor familiarity and independence, Nigerian companies across all industries can strengthen corporate accountability, enhance financial transparency, and reduce the risk of fraudulent financial reporting.

Determining the ideal duration for audit tenure is a complex issue that requires balancing audit efficiency with the need for independence. On one hand, longer audit tenures allow auditors to develop a deep understanding of a company's financial operations, risk areas, and reporting processes, which can improve fraud detection and financial statement accuracy. However, prolonged engagements also increase the risk of familiarity threats, reduced professional skepticism, and compromised independence. Over time, auditors may become

too close to management, making them less likely to question financial misstatements or aggressive accounting practices (Haryono et al., 2019). On the other hand, shorter audit tenures or frequent mandatory rotations can help mitigate independence concerns by ensuring that new auditors bring fresh perspectives and increased skepticism to financial reporting. However, frequent rotations can also present challenges, such as knowledge gaps, higher transition costs, and increased audit inefficiencies. Newly appointed auditors require time to understand the company's financial environment, past transactions, and risk exposures, and this learning curve could potentially lead to weaker fraud detection in the initial years of engagement (PCAOB, 2023).

To strike the right balance, regulatory bodies and companies should consider a multi-faceted approach that integrates elements of both continuity and independence. One effective measure is audit partner rotation instead of full firm rotation, where lead auditors are rotated while the audit firm remains engaged. This approach preserves institutional knowledge while minimizing familiarity threats, ensuring that audit quality and fraud detection are not compromised (PCAOB, 2023). Another essential safeguard is enhanced oversight and peer review mechanisms. Strengthening independent peer review programs and requiring more rigorous documentation of audit procedures can help hold long-tenured auditors accountable for errors in financial misstatements (Sulaiman, Okoro, & Adegbite, 2023). Such oversight mechanisms provide an additional layer of transparency and external evaluation, ensuring that long-term engagements do not lead to leniency in audit assessments. A hybrid rotation policy may also be an optimal solution. This approach combines audit partner rotation with firm rotation at longer intervals, such as every 15 years instead of shorter, disruptive cycles. A longer rotation period allows auditors to develop adequate knowledge of the company's financial reporting framework while ensuring that independence is maintained by introducing new leadership within the audit team at key intervals (Karpoff, 2020). Ultimately, the optimal

audit tenure policy should aim to maximize audit effectiveness while safeguarding independence. By implementing audit partner rotation, strengthening peer review programs, and adopting a hybrid approach to firm rotation, companies and regulators can ensure that audits remain objective, high-quality, and effective in detecting and preventing corporate fraud.

2.2.2.2 Non-Audit Services

Non-audit services (NAS) refer to professional services provided by auditors to their clients outside the statutory audit process. These services include consulting, tax advisory, risk management, financial planning, and regulatory compliance reviews. While non-audit services can enhance business efficiency and provide valuable insights, they raise significant concerns about auditor independence. A core issue arises when the fees auditors earn from non-audit services exceed or closely rival their audit fees, creating a potential conflict of interest. This financial reliance may compromise auditors' objectivity, as they may become reluctant to issue adverse audit opinions for fear of losing lucrative consulting contracts (Khasharmeh & Desoky, 2018).

The ratio of non-audit fees to audit fees serves as a key metric for assessing auditor independence. A higher ratio indicates that an auditor is earning a greater portion of its revenue from non-audit services than from auditing, thereby increasing the risk of compromised objectivity. Regulators and scholars have debated whether extensive non-audit services impact audit quality and fraud detection. While some argue that auditors who provide additional services gain deeper insights into a company's operations, others emphasize that economic dependence on non-audit fees reduces professional skepticism and increases the risk of financial misstatements (Sulaiman, Okoro, & Adegbite, 2023). Economic dependence on a client due to non-audit service fees is one of the primary risks to

auditor independence. When an auditor relies on a client for a significant portion of its revenue, it creates an incentive to prioritize business relationships over professional skepticism. In such cases, auditors may hesitate to challenge aggressive accounting practices or overlook signs of fraud to preserve their consulting contracts. Empirical studies support this concern. Research by Li, Hay, and Knechel (2003) found that audit firms that provided substantial NAS to their clients were more likely to issue unqualified audit opinions, even in the presence of financial misstatements. Similarly, Ramzan, Ahmad, and Rafay (2020) found that firms that engaged auditors for both consulting and audit services were more likely to manipulate earnings, demonstrating that excessive NAS engagements could contribute to financial misrepresentation.

Another critical issue is the self-review threat, which occurs when auditors provide non-audit services that require them to assess their own work during the audit process. For example, if an auditor provides tax advisory services and later audits the tax provisions within the financial statements, there is a high risk of bias and errors being overlooked (PCAOB, 2023). Self-review threats diminish auditors' ability to exercise independent judgment, thereby reducing audit reliability and increasing the likelihood of fraudulent reporting. Additionally, prolonged engagements involving multiple non-audit services foster familiarity threats, where auditors develop close relationships with management, making them less willing to challenge financial misstatements (Khasharmeh & Desoky, 2018).

Regulatory bodies worldwide have recognized the dangers posed by excessive non-audit services and introduced strict limitations to safeguard auditor independence. In the United States, the Sarbanes-Oxley Act (SOX) of 2002 prohibits auditors from providing certain NAS, such as internal audit outsourcing and executive tax planning, to their audit clients. The European Union Audit Reform (2014) imposes a cap on non-audit fees, ensuring that they do not exceed 70% of the average audit fees over a three-year period. Similarly, the Financial

Reporting Council of Nigeria (FRCN, 2024) has introduced measures requiring greater transparency in auditor-client relationships and restricting auditors from offering specific advisory services to their audit clients. These regulations aim to reduce conflicts of interest, protect audit integrity, and enhance public confidence in financial statements (Sulaiman et al., 2023).

The impact of non-audit services on corporate fraud has been widely documented in high-profile cases. The Enron scandal serves as a prime example, where Arthur Andersen—the company’s external auditor—provided both audit and extensive consulting services to Enron. The firm’s financial reliance on Enron’s consulting fees created a conflict of interest, ultimately leading to one of the largest corporate frauds in history. Similarly, in Nigeria, the Cadbury financial scandal revealed manipulation of financial statements, where external auditors failed to detect irregularities due to their strong financial dependence on non-audit service fees from the company (FRCN, 2024). The Wirecard scandal in Germany also demonstrated how auditors' involvement in advisory services contributed to fraudulent financial reporting, further reinforcing the need for strict regulatory oversight on NAS engagements (Khasharmeh & Desoky, 2018). To address the threats posed by non-audit services, companies and regulators must adopt a balanced approach that allows auditors to provide value-added services while ensuring independence is not compromised. One effective strategy is setting strict NAS fee limits to prevent auditors from becoming financially dependent on consulting engagements. Regulators could also require audit committees to approve all non-audit services, ensuring that such engagements do not pose a threat to auditor objectivity. Additionally, companies should implement rotational NAS restrictions, which prevent the same audit firm from offering consulting services while auditing financial statements. Transparency in public disclosure of all non-audit services

provided by auditors is also essential, as it allows stakeholders to assess potential conflicts of interest (Sulaiman et al., 2023).

Non-audit services remain a contentious issue in auditing and corporate governance, as they provide both value and risk. While some argue that non-audit services improve auditors' business insights, the dominant concern is that economic dependence on NAS fees undermines professional skepticism and facilitates corporate fraud. By implementing effective regulatory restrictions, strengthening oversight mechanisms, and ensuring transparent NAS disclosures, regulators and corporations can preserve auditor independence, enhance financial reporting credibility, and reduce the risk of fraudulent financial practices.

2.2.2.3 Audit Firm Rotation

Audit firm rotation refers to the periodic replacement of an audit firm or lead auditor to maintain objectivity, prevent excessive familiarity with a client, and reinforce auditor independence. The rationale behind rotation policies is that long-standing auditor-client relationships may lead to compromised professional skepticism, making it more likely that auditors will overlook financial irregularities (Nguyen & Truong, 2021). By requiring companies to periodically change audit firms or at least rotate lead auditors, regulators aim to introduce fresh perspectives, enhance financial scrutiny, and reduce the risk of collusive fraud.

Regulatory bodies worldwide have implemented audit firm rotation policies in various forms. The Public Company Accounting Oversight Board (PCAOB) in the United States, the European Union (EU), and the Financial Reporting Council of Nigeria (FRCN) have all proposed or enforced audit rotation to strengthen corporate governance and improve audit quality (FRCN, 2024). While some jurisdictions impose mandatory audit firm rotation (MAR), requiring firms to change their auditors after a set number of years, others rely on voluntary or market-driven rotations, where companies decide when to switch audit firms.

The effectiveness of audit firm rotation remains a subject of intense debate. Proponents argue that periodic rotations increase auditor objectivity and reduce the risk of management influence over the audit process. By contrast, critics contend that frequent auditor changes may disrupt audit continuity, increase costs, and reduce audit efficiency, particularly when newly appointed auditors lack institutional knowledge of a company's financial reporting history (Sulaiman, Okoro, & Adegbite, 2023).

One of the primary arguments in favor of mandatory audit firm rotation is its potential to enhance fraud detection. Long-tenured auditors may develop close relationships with management, which could lead to a loss of independence and professional skepticism. When auditors become overly familiar with a client's operations, they may become less likely to challenge aggressive accounting estimates or detect fraudulent financial activities (Glover, Prawitt, & Wood, 2019).

Research conducted by Jackson, Moldrich, and Roebuck (2007) found that companies with long-term auditor engagements were more prone to financial misstatements, as auditors became less vigilant in their scrutiny of financial records. Their study suggested that mandatory audit firm rotation enhances objectivity by introducing fresh perspectives, making it more likely that auditors will identify financial irregularities. Similarly, a study by Widyaningsih et al. (2019) in Indonesia found that firms that rotated audit firms at regular intervals experienced fewer instances of financial misstatements and stronger investor confidence in financial reporting. However, opponents of mandatory audit firm rotation argue that frequent changes may not necessarily improve fraud detection. Newly appointed auditors require a learning curve to understand the client's financial processes, risk areas, and industry-specific accounting practices. During this adjustment period, they may fail to detect inconsistencies or fraudulent activities, thereby increasing audit risk (Omoye & Aronmwan, 2015). Furthermore, frequent rotation could lead to increased costs for both companies and

audit firms, as repeated onboarding processes require additional resources for information gathering and risk assessment.

The implications of audit firm rotation extend beyond theoretical debates, as demonstrated by major corporate fraud cases. The collapse of Enron in 2001, one of the most notorious corporate fraud scandals in history, revealed how an extended auditor-client relationship could compromise audit quality. Arthur Andersen, which served as Enron's auditor for over sixteen years, was found to have overlooked significant financial misstatements, raising concerns about the risks of prolonged engagements. Many analysts have argued that if mandatory audit firm rotation had been in place, Enron's fraudulent practices might have been detected earlier, preventing investor losses and economic fallout (Jackson et al., 2007). Similar cases have emerged in other jurisdictions, reinforcing the importance of auditor independence. The Satyam scandal in India exposed the dangers of long-term auditor-client relationships when PricewaterhouseCoopers (PwC), which had served as Satyam's auditor for several years, failed to identify fraudulent financial activities. This case led to significant regulatory reforms in India, including the implementation of mandatory audit firm rotation for publicly traded companies (Widyaningsih et al., 2019). In Nigeria, the Cadbury financial scandal underscored similar concerns, where prolonged auditor engagements led to financial misstatements going undetected, prompting the FRCN to advocate for stricter auditor rotation policies (FRCN, 2024).

Different regulatory frameworks have attempted to strike a balance between maintaining auditor independence and preserving audit quality. In the United States, the Sarbanes-Oxley Act (SOX) mandates that audit partners rotate every five years, though it does not require full audit firm rotation. PCAOB studies suggest that while partner rotation may improve objectivity, enforcing complete firm rotation could lead to inefficiencies and increased costs (PCAOB, 2023). The European Union, on the other hand, enforces audit firm rotation every

ten years, with extensions allowed up to twenty years if a competitive bidding process is conducted. This approach aims to limit excessive familiarity while ensuring some level of continuity in financial reporting (Widyaningsih et al., 2019). Nigeria's FRCN guidelines stipulate that public interest entities must rotate audit firms every ten years to maintain transparency and financial accountability (FRCN, 2024). The challenge for policymakers is to implement audit firm rotation in a way that maximizes its benefits while minimizing disruptions. Some scholars advocate for audit partner rotation instead of full firm rotation, arguing that replacing lead auditors while keeping the same firm engaged preserves institutional knowledge while mitigating familiarity threats. PCAOB studies indicate that such an approach could help retain audit quality while ensuring that new perspectives are introduced periodically (PCAOB, 2023). Another proposed strategy is a hybrid rotation model, where audit firms rotate every fifteen years instead of every ten, striking a balance between continuity and independence (Omoye & Aronmwan, 2015). Additionally, strengthening peer review mechanisms and increasing external oversight could help mitigate the risks associated with long-tenured auditors while preserving audit effectiveness (Jackson et al., 2007).

While audit firm rotation remains a contentious issue, there is consensus that excessive familiarity between auditors and clients poses risks to financial reporting integrity. The extent to which mandatory rotation enhances audit quality depends on how well it is implemented and whether firms can adapt to regulatory changes without experiencing significant disruptions. Empirical studies suggest that while mandatory audit firm rotation may improve objectivity, it must be accompanied by complementary measures, such as enhanced oversight, stricter regulatory enforcement, and continuous professional education for auditors (Sulaiman et al., 2023). Audit firm rotation plays a crucial role in maintaining auditor independence and enhancing financial reporting credibility. While some argue that it strengthens fraud detection

by reducing familiarity threats, others contend that it introduces inefficiencies and knowledge gaps that could hinder audit effectiveness. The key lies in designing rotation policies that achieve a balance between independence and efficiency. Whether through full firm rotation, partner rotation, or a hybrid approach, the goal should be to preserve audit quality while ensuring that auditors remain impartial, skeptical, and effective in detecting corporate fraud.

2.2.2.4 Audit Firm Size

Audit firm size plays a crucial role in determining auditor independence, as larger audit firms typically have greater financial strength, stronger regulatory oversight, and better fraud detection capabilities compared to smaller firms. The Big Four accounting firms—PwC, Deloitte, KPMG, and EY—are widely recognized for their superior resources, global presence, and extensive client portfolios. These firms often prioritize reputation, regulatory compliance, and high-quality audits to maintain their dominant market position (Nguyen & Truong, 2021). In contrast, smaller audit firms, while still regulated, may face financial and competitive pressures that could compromise their independence and increase their susceptibility to client influence (Sulaiman, Okoro, & Adegbite, 2023). Larger audit firms are generally perceived to be more independent because they have less reliance on individual clients for revenue. Unlike smaller firms that may depend heavily on a few large clients to sustain their operations, Big Four auditors tend to diversify their client base, reducing the risk of financial dependence on any single engagement. This reduces the likelihood of bias or undue client influence, ensuring that auditors remain objective in their assessments of financial statements. Studies have shown that firms audited by Big Four auditors are less likely to engage in fraudulent financial reporting, as these firms have robust internal quality control measures, advanced fraud detection technologies, and a greater degree of regulatory scrutiny (Chen, Hsu, Huang, & Yang, 2013).

Empirical research supports the claim that audit firm size influences financial reporting quality and fraud detection. A study conducted by Choi, Kim, Kim, and Zang (2009) found that large audit firms provided more accurate financial reporting assessments and were less likely to issue misleading financial statements. Their findings suggested that firms audited by Big Four auditors had significantly lower instances of earnings manipulation, indicating that larger audit firms prioritize audit quality over client retention. Similarly, research by Mangala and Kumari (2015) demonstrated that non-Big Four firms exhibited higher risks of financial misstatements, primarily due to resource constraints and lower regulatory oversight. However, despite the advantages associated with large audit firms, there have been notable cases where Big Four firms have failed to detect or prevent financial fraud. One of the most infamous examples is Arthur Andersen's involvement in the Enron scandal, where auditors were accused of overlooking fraudulent financial practices to maintain a lucrative client relationship. This case highlighted that even large, well-established audit firms are not immune to conflicts of interest, raising concerns about over-reliance on brand reputation rather than actual audit quality (Lawal et al., 2017). Similarly, the Wirecard fraud case in Germany, which involved Ernst & Young (EY), revealed weaknesses in fraud detection mechanisms even within top-tier audit firms. These cases demonstrate that while audit firm size can enhance auditor independence, it does not guarantee absolute protection against fraudulent financial reporting (Sulaiman et al., 2023).

The debate surrounding audit firm size and its impact on auditor independence also extends to regulatory oversight and public perception. Larger audit firms operate under greater regulatory scrutiny, as government agencies, investors, and financial markets closely monitor their audit quality. This scrutiny compels Big Four firms to adhere to stringent audit guidelines, reducing the likelihood of biased reporting or collusion with management. In contrast, smaller firms may not face the same level of external oversight, increasing the risk

of audit failures and undetected financial misstatements (Chen et al., 2013). Additionally, public companies and large investors often prefer Big Four auditors due to their established credibility and reputation for conducting thorough audits. The presence of a Big Four auditor on a company's financial statements is often viewed as a signal of financial integrity, increasing investor confidence and reducing perceived fraud risk (Choi et al., 2009).

The advantages of Big Four audit firms also stem from their access to advanced fraud detection tools, specialized industry expertise, and experienced audit professionals. Large firms invest heavily in audit technology, data analytics, and forensic accounting, allowing them to detect anomalies in financial reports more effectively. Additionally, Big Four auditors frequently conduct cross-border audits, providing them with extensive knowledge of international financial regulations and fraud risk factors. In contrast, smaller firms may lack the financial and technological resources necessary to conduct highly sophisticated fraud detection procedures, making them more vulnerable to audit failures (Nguyen & Truong, 2021). While audit firm size is often associated with higher audit quality, it is important to recognize that small and medium-sized audit firms also play a significant role in financial reporting. Not all smaller firms exhibit weaker audit independence, as some adopt strict professional standards and rigorous audit procedures to maintain credibility. In certain cases, smaller firms may even offer more personalized audit services, allowing for detailed examinations of financial statements that could be overlooked by larger firms handling multiple high-profile clients. However, the primary concern remains the financial dependency that smaller audit firms may have on individual clients, making it more challenging to issue unfavorable audit opinions without risking revenue loss (Sulaiman et al., 2023).

To mitigate the risks associated with audit firm size and auditor independence, regulatory bodies have introduced several policy measures. One approach is the mandatory audit firm rotation rule, which prevents auditors from maintaining indefinite relationships with clients,

reducing the potential for collusion and biased reporting. Additionally, some jurisdictions have introduced joint audits, where both a Big Four and a non-Big Four firm jointly conduct audits, ensuring diverse perspectives and reducing the risk of misstatements (Chen et al., 2013). Another important regulatory intervention is the disclosure of audit firm tenure and fees. Requiring companies to publicly disclose their audit firm relationships, tenure, and fees paid allows investors and regulators to assess whether financial dependency could be compromising audit independence. By increasing transparency in audit engagements, policymakers aim to reduce conflicts of interest and strengthen investor confidence in financial reporting (Choi et al., 2009).

Audit firm size plays a significant role in determining auditor independence and financial reporting quality. While larger audit firms tend to provide more independent, high-quality audits due to their extensive resources, regulatory oversight, and reputation-based incentives, there have been cases where even Big Four firms have failed to prevent financial fraud. In contrast, smaller audit firms face greater risks of client dependency, making them more susceptible to management pressure and biased reporting. However, audit firm size alone does not guarantee audit effectiveness, as both large and small firms must adhere to professional standards, regulatory frameworks, and ethical guidelines to maintain auditor independence. Future research should explore hybrid regulatory models, such as joint audits and enhanced disclosure requirements, to strike a balance between audit firm competition and financial transparency.

2.2.2.5 Audit Fee Dependence

Audit fee dependence is a critical issue in the discussion of auditor independence, as it highlights the financial relationship between auditors and their clients. When an auditor relies heavily on a single client for a substantial portion of their revenue, there is a heightened risk

that their objectivity may be compromised. The potential loss of such a client could significantly impact the auditor's financial standing, creating an incentive to issue favorable audit opinions or overlook financial misstatements to maintain the business relationship (PCAOB, 2023). This dynamic introduces a conflict of interest that weakens auditor independence and increases the likelihood of corporate fraud and misrepresentation in financial reports. The concern surrounding audit fee dependence is particularly relevant in highly concentrated industries where a small number of large firms dominate the market. In such industries, auditors may feel pressured to retain key clients by minimizing their scrutiny of financial statements. Research by Karampinis (2024) found that audit fees tend to exhibit "stickiness," meaning that even when audit effort decreases, audit fees do not proportionately decline. This suggests that auditors may be incentivized to maintain a steady stream of revenue from repeat clients, rather than rigorously reassessing the financial health of these organizations.

The effects of audit fee dependence on financial reporting quality have been widely documented. Empirical studies indicate that companies with high levels of audit fee dependence tend to have a greater risk of financial misstatements. Lim and Tan (2009) found that auditors who are financially reliant on a specific client are more likely to issue unqualified audit opinions, even when red flags are present. The study further revealed that this effect is moderated by industry specialization, meaning that auditors with extensive expertise in a particular industry may be less susceptible to financial pressures. However, the overall risk of compromised independence remains a significant concern, particularly in cases where audit firms derive a disproportionately high percentage of their total revenue from a single engagement.

One of the primary ways in which audit fee dependence compromises auditor independence is through the economic bond formed between the auditor and the client. When an audit firm

generates a significant portion of its revenue from a single client, the auditor may become reluctant to challenge management on questionable accounting practices. This situation is particularly problematic when companies engage in earnings management or aggressive revenue recognition tactics, as auditors may feel pressured to approve misleading financial statements rather than risk losing a lucrative contract (Nguyen & Truong, 2021). Additionally, companies that pay excessively high audit fees may be attempting to exercise influence over the audit process. Research suggests that some firms deliberately overpay audit fees as a way to secure more favorable treatment from auditors. High fees may create an implicit expectation that auditors will not issue qualified opinions or disclose material weaknesses in financial reporting. In contrast, companies that pay below-market audit fees may also pose a risk, as lower fees could indicate cost-cutting at the expense of audit quality, leading to less thorough examinations of financial statements (Karpoff, 2020). The issue of audit tenure further exacerbates the problem of fee dependence. Long audit tenures, where an auditor has worked with the same client for many years, increase the risk of financial reliance and reduce the likelihood that an auditor will challenge fraudulent accounting practices. Over time, auditors may develop personal relationships with management, making them less inclined to issue adverse audit reports even in cases where financial misstatements are evident (Sulaiman, Okoro, & Adegbite, 2023).

Given the risks associated with audit fee dependence, regulatory bodies worldwide have implemented measures to enhance transparency and safeguard auditor independence. The Financial Reporting Council of Nigeria (FRCN) has introduced audit fee disclosure requirements, mandating that companies report the percentage of their total audit fees paid to a single auditor (FRCN, 2024). This measure aims to prevent over-reliance on individual clients and ensure greater transparency in auditor-client relationships. Internationally, regulatory frameworks such as the Sarbanes-Oxley Act (SOX) in the U.S. and the European

Union's Audit Reform (2014) have imposed audit fee transparency requirements and mandatory rotation policies to limit fee dependence. The PCAOB has also proposed reforms aimed at reducing excessive financial reliance on single clients, including setting fee caps and requiring audit firms to disclose their largest revenue-generating clients (PCAOB, 2023).

Some regulatory approaches have sought to mitigate the risks associated with audit fee dependence through fee diversification strategies. Encouraging audit firms to broaden their client base ensures that no single company holds disproportionate financial influence over an auditor. Additionally, mandatory joint audits, where two separate firms audit a company's financials, have been proposed as a way to enhance audit objectivity and distribute fee revenue across multiple firms, reducing financial reliance on a single client (Lim & Tan, 2009).

Several high-profile corporate fraud cases illustrate the dangers of audit fee dependence and its impact on auditor independence. One of the most notorious cases is Enron, where Arthur Andersen was accused of failing to challenge fraudulent accounting practices due to its financial reliance on Enron's audit and consulting fees. This excessive economic dependence compromised Andersen's objectivity, contributing to one of the largest corporate frauds in history (Karampinis, 2024). Similarly, the Wirecard scandal in Germany highlighted how auditors can become financially entangled with their clients, leading to weak oversight and undetected financial misstatements. In this case, Ernst & Young (EY), which served as Wirecard's auditor, was accused of failing to properly investigate accounting irregularities, partly due to its long-standing financial reliance on Wirecard's audit fees (Nguyen & Truong, 2021). In Nigeria, the Cadbury Nigeria Plc financial scandal demonstrated how audit fee dependence can lead to compromised financial reporting. The case revealed that the company's external auditors failed to detect accounting misstatements, likely due to their

long-term financial ties with the company. This incident led to increased regulatory scrutiny and reinforced the need for stricter audit transparency measures (FRCN, 2024).

To reduce audit fee dependence risks, several strategies should be adopted. Implementing fee caps can prevent audit firms from receiving an excessive percentage of revenue from a single client, ensuring that auditors do not become financially dependent on specific engagements. Additionally, regulators should require greater public disclosure of audit fees and auditor-client financial relationships, allowing investors and oversight bodies to assess potential conflicts of interest. Mandatory joint audits could further mitigate the risks associated with audit fee dependence by ensuring that multiple audit firms share audit responsibilities, reducing the influence of any single client. Additionally, mandatory audit firm rotation could help prevent long-term financial relationships that may compromise independence (Lim & Tan, 2009).

Audit fee dependence remains a significant threat to auditor independence and financial reporting integrity. When auditors rely too heavily on a single client for revenue, their ability to issue unbiased audit opinions is compromised, increasing the likelihood of corporate fraud and financial misstatements. Regulatory measures such as fee transparency laws, mandatory auditor rotation, and joint audits are essential to mitigating audit fee dependence risks and strengthening audit quality. However, further reforms are needed to ensure that auditors maintain objectivity and resist financial pressures from dominant clients. Future research should evaluate the long-term effectiveness of these regulatory interventions and identify additional safeguards to protect auditor independence.

2.3 Theoretical Review

The relationship between auditor independence and corporate fraud can be better understood through well-established theoretical frameworks. These theories explain the motives behind

corporate fraud, the role of auditors in fraud prevention, and how external factors influence auditor independence. Over time, researchers have developed multiple theories that highlight why financial misstatements occur and how auditors' independence can mitigate these risks.

To build a strong foundation for this study, five significant theories are explored: Agency Theory, Fraud Triangle Theory, Theory of Inspired Confidence, Stakeholder Theory, and Institutional Theory. Each theory provides unique yet interconnected insights into the challenges of maintaining auditor independence and how it affects fraud detection. While all five theories contribute valuable perspectives, this study is ultimately underpinned by Agency Theory, as it offers the most comprehensive explanation for why corporate fraud occurs and how independent auditors act as a safeguard against unethical financial practices.

Agency Theory

Agency Theory was developed by Michael C. Jensen and William H. Meckling in 1976, and it has become a fundamental concept in corporate governance and financial reporting. The theory is based on the principal-agent relationship, where shareholders (principals) delegate authority to company executives (agents) to manage the firm on their behalf. Ideally, managers should act in the best interests of shareholders, ensuring that the company's financial performance is transparent, reliable, and ethical. However, due to information asymmetry and conflicting interests, managers may manipulate financial statements, engage in fraudulent transactions, or withhold critical financial data to maximize their personal benefits, such as increasing stock prices, securing higher bonuses, or concealing company losses. This misalignment of interests creates an agency problem, where shareholders rely on independent auditors to monitor managers' financial activities and detect potential fraud. The presence of auditors helps to reduce information asymmetry by providing assurance that financial reports are accurate and free from material misstatements. However, auditor independence is crucial for this oversight role to be effective. If auditors become too familiar

with a company's management due to long audit tenures, receive excessive non-audit service fees, or develop financial dependence on their clients, their ability to detect and report fraud may be compromised.

This theory is highly relevant to this study as it explains why auditor independence plays a crucial role in preventing corporate fraud. Auditors are expected to serve as external watchdogs, ensuring that managers act in the best interests of shareholders. However, when economic ties between auditors and clients grow too strong, auditors may fail to issue qualified opinions on fraudulent financial statements, allowing fraudulent activities to persist. By examining how factors such as audit tenure, audit fee dependence, and non-audit services affect independence, this study aligns perfectly with Agency Theory's emphasis on external monitoring as a fraud prevention mechanism.

Fraud Triangle Theory

The Fraud Triangle Theory was introduced by Donald Cressey in 1953 as part of his research on occupational fraud. This theory seeks to explain why individuals commit fraud, identifying three primary factors that contribute to fraudulent behavior:

- i. Pressure – A financial burden or unrealistic performance expectation that motivates an individual to commit fraud.
- ii. Opportunity – Weak internal controls or compromised auditor independence that create an environment where fraud can occur without detection.
- iii. Rationalization – A psychological justification that allows individuals to view fraudulent actions as acceptable.

Cressey's Fraud Triangle Theory is particularly relevant to this study because weak auditor independence creates an "opportunity" for fraud to occur. When audit firms provide excessive non-audit services to clients, they may be reluctant to issue negative audit opinions, allowing

fraudulent financial statements to go undetected. Similarly, if auditors are financially dependent on a single client, they may be hesitant to challenge suspicious transactions for fear of losing revenue.

This theory aligns with the study's focus on identifying how compromised auditor independence affects fraud detection. By analyzing whether audit firm rotation, non-audit fees, and audit tenure create opportunities for fraud, this study helps to validate the Fraud Triangle Theory's explanation of the conditions that enable financial misconduct.

Theory Of Inspired Confidence

The Theory of Inspired Confidence was developed by Theodorus Limperg in 1932, and it highlights the critical role of public trust in the auditing profession. According to Limperg, investors, regulatory bodies, and the general public rely on independent auditors to ensure the accuracy and reliability of financial statements. If auditors fail to act independently and objectively, public confidence in financial reports diminishes, leading to market instability and reduced investor trust. This theory is particularly relevant to this study as it emphasizes that auditor independence is not just about detecting fraud—it is about maintaining financial credibility. When audit firms become too closely tied to their clients due to long tenure, excessive non-audit services, or financial reliance, their independence is perceived to be compromised, even if no actual fraud occurs. This perception alone is sufficient to damage public trust in financial reporting.

The study aligns with this theory by investigating how various factors affecting auditor independence can weaken public confidence in financial reports. If auditors fail to issue qualified audit opinions when fraud is detected, they contribute to financial instability and loss of trust in corporate governance systems.

Stakeholder Theory

Edward Freeman (1984) introduced Stakeholder Theory, expanding the traditional focus of corporate governance beyond shareholders to include employees, creditors, regulatory agencies, and society at large. This theory argues that businesses must consider the interests of all stakeholders when making financial decisions, as fraudulent reporting can have wide-ranging negative consequences. In the context of auditor independence and corporate fraud, Stakeholder Theory suggests that auditors must act in the best interests of all stakeholders, not just company executives or shareholders. If auditors compromise their independence, fraudulent financial reporting may go undetected, leading to financial losses for employees, creditors, and the broader economy. This study aligns with Stakeholder Theory by examining how weakened auditor independence contributes to financial fraud that affects multiple stakeholders.

Institutional Theory

Institutional Theory was developed by Richard Scott (1995) to explain how regulatory frameworks, governance policies, and industry norms influence corporate behavior. This theory suggests that strong institutional environments lead to better audit quality and reduced fraud risks. This theory is relevant to the study because corporate fraud is more prevalent in environments where regulatory oversight is weak. If auditing regulations are inconsistent or poorly enforced, companies may exploit gaps in auditor independence policies to engage in financial misstatements. This study aligns with Institutional Theory by evaluating how regulatory enforcement influences auditor independence in Nigeria. It assesses whether FRCN's policies on audit tenure, non-audit services, and audit fee dependence are effective in preventing fraud.

2.3.1 Theoretical Framework

Among the five theories examined, Agency Theory, developed by Jensen and Meckling in 1976, is the most suitable to underpin this study on auditor independence and corporate fraud.

This theory provides the most direct explanation of why financial fraud occurs within corporate organizations and highlights the critical role of independent auditors in mitigating fraudulent activities. While other theories, such as the Fraud Triangle Theory, focus on the motivations behind fraud, or the Institutional Theory, which emphasizes regulatory and governance structures, Agency Theory specifically addresses the conflicts of interest between corporate managers and shareholders. These conflicts necessitate a strong system of external monitoring, particularly through independent audits, to ensure financial transparency and prevent fraudulent practices.

Agency Theory is the most appropriate framework for this study because it directly explains why auditor independence is crucial in mitigating fraud risks. At the core of this theory is the principal-agent relationship, where shareholders (principals) entrust managers (agents) to make financial and operational decisions on their behalf. However, due to information asymmetry and self-interest, managers may engage in fraudulent activities, misstate financial statements, or manipulate earnings reports to maximize their personal benefits, such as securing bonuses, increasing stock prices, or concealing financial difficulties. The role of auditors, as external monitors, is to reduce information asymmetry and ensure that financial reports accurately reflect a company's performance. However, if auditors' independence is compromised due to excessive familiarity with clients, economic dependence, or conflicts of interest, they may fail to report financial misstatements, ultimately allowing fraud to persist. Agency Theory also forms the foundation for modern corporate governance and audit regulations, including frameworks such as the Sarbanes-Oxley Act (SOX) in the U.S. and the Financial Reporting Council of Nigeria (FRCN) guidelines. These regulations acknowledge the importance of auditor independence in reducing corporate fraud, reinforcing the relevance of this theory. Empirical studies have consistently demonstrated that weakened auditor

independence increases the likelihood of financial misstatements and fraudulent reporting, aligning perfectly with the study's objectives.

This study evaluates how factors such as audit tenure, non-audit services, firm rotation, firm size, and audit fee dependence impact auditor independence and, consequently, corporate fraud risks. Agency Theory supports this investigation by emphasizing that prolonged auditor-client relationships, financial reliance, and conflicts of interest can significantly impair an auditor's ability to detect fraud. By analyzing how these variables influence auditor objectivity and professional skepticism, this study contributes to the broader discourse on corporate governance, fraud prevention, and financial reporting integrity. By underpinning this research with Agency Theory, the study aligns with a well-established framework that explains why fraud occurs and how independent auditors serve as a deterrent. It provides valuable insights into how regulatory mechanisms either strengthen or weaken auditor independence and how financial pressures influence auditors' ability to detect and report fraud. The findings from this research will contribute both academically and practically, offering recommendations for enhancing regulatory oversight, strengthening corporate governance, and reinforcing the role of auditors in fraud detection.

2.4 Empirical Review

Nguyen and Truong (2021) conducted a study titled "The Impact of Auditor Tenure on Fraud Detection", which examined the relationship between audit tenure and the likelihood of fraud detection. The study was carried out using data from multiple publicly traded companies across different industries, analyzing whether long-tenured auditors are more likely to overlook financial misstatements due to familiarity threats.

The study employed a quantitative research approach, using longitudinal data from regulatory enforcement actions, corporate financial statements, and audit reports spanning from 2010 to 2020. The researchers applied regression analysis to determine the correlation between audit tenure and fraud detection, controlling for variables such as audit firm size, industry risk, and governance structures. Additionally, they incorporated survey responses from auditors and financial analysts to assess audit quality under extended tenure periods.

The study's sample included 468 firms with documented cases of financial misstatements and fraud allegations. The purpose of the study was to evaluate whether prolonged auditor-client relationships compromise audit independence and whether mandatory audit firm rotation improves financial reporting transparency.

The key findings indicated that extended audit tenure significantly reduces the likelihood of fraud detection. Auditors who had been engaged for more than ten years were found to be less likely to issue qualified opinions, even in cases where financial irregularities were evident. Firms with long-tenured auditors exhibited higher earnings management tendencies, suggesting that overfamiliarity weakens professional skepticism. Conversely, companies that rotated audit firms every six to eight years demonstrated higher fraud detection rates, as newly appointed auditors were more inclined to challenge aggressive accounting practices. The study also highlighted that Big Four auditors were less affected by tenure length than smaller firms, due to stronger internal quality controls and regulatory oversight. However, even among Big Four firms, longer audit tenure was linked to increased financial misstatements and delayed fraud detection.

Nguyen and Truong (2021) concluded that prolonged auditor-client relationships compromise audit independence and reduce fraud detection effectiveness. The researchers recommended that mandatory audit firm rotation policies be strengthened to prevent excessive familiarity between auditors and clients. They also emphasized the need for enhanced regulatory

oversight to ensure that auditors maintain professional skepticism and objectivity, even during long-term engagements.

This study is highly relevant to the current research on auditor independence and corporate fraud, as it provides empirical evidence that audit tenure plays a crucial role in fraud detection. The findings align with Agency Theory, which suggests that external monitoring mechanisms such as independent audits are essential for reducing fraud risks. However, the study did not explore the optimal rotation period across different industries, leaving a gap that this research seeks to address.

A limitation of the study is that it focused primarily on publicly traded firms in multiple industries, but the study did not differentiate between sectors where regulatory oversight varies significantly. This limitation suggests that the impact of audit tenure on fraud detection may not be uniform across different industries. Additionally, while the study provided strong quantitative evidence, it lacked in-depth qualitative insights, such as interviews with auditors, regulators, or financial analysts, which could have offered a broader understanding of why long-tenured auditors overlook fraud. The research also did not establish an optimal rotation period, leaving room for further studies to explore industry-specific recommendations.

Sulaiman, Okoro, and Adegbite (2023) carried out a study titled “Auditor Independence and Corporate Fraud in Nigeria”, which examined the relationship between auditor independence and financial misstatements. The study was conducted in Nigeria, focusing on publicly listed companies across various industries.

The study adopted a mixed-methods approach, combining quantitative analysis of financial data with qualitative interviews from audit professionals and regulatory officials. Data was gathered from annual reports, regulatory filings, and fraud cases documented by the Financial Reporting Council of Nigeria (FRCN) and the Economic and Financial Crimes Commission

(EFCC), covering the period from 2015 to 2022. The study employed logistic regression and correlation analysis to evaluate the relationship between audit tenure, non-audit services, audit fees, and fraud occurrence.

The sample consisted of 312 Nigerian publicly listed companies, covering multiple sectors such as banking, oil and gas, and manufacturing. The purpose of the study was to assess whether Nigeria's current independence standards effectively reduce corporate fraud and whether auditor economic dependence on clients affects fraud detection.

The study found that companies with high audit fee dependence—where audit fees accounted for more than 15% of the auditor's total revenue—were more likely to engage in financial fraud. Auditors who received substantial non-audit service fees from their clients exhibited lower levels of fraud reporting, suggesting that economic dependence weakens auditor objectivity. The findings also indicated that long audit tenure exceeding ten years was associated with weaker fraud detection, as auditors became less skeptical towards long-term clients. The research further highlighted that Big Four auditors demonstrated stronger independence than non-Big Four firms, yet they were not entirely immune to financial dependence pressures. In cases where non-audit services comprised more than 30% of the total fees paid to auditors, the probability of issuing a qualified audit opinion decreased by 18%, reinforcing the idea that excessive reliance on consulting services impairs auditor independence.

The study concluded that current auditor independence regulations in Nigeria are insufficient in preventing financial fraud. The researchers suggested that the FRCN and other regulatory agencies impose stricter limits on non-audit service fees to minimize conflicts of interest. They also recommended greater enforcement of mandatory firm rotation policies, particularly in industries with high financial misstatement risks. Additionally, they proposed that audit

firms be required to disclose the percentage of total revenue derived from specific clients to enhance transparency.

This study is particularly relevant as it provides empirical evidence on the Nigerian regulatory environment, aligning with the focus of this research. By analyzing how audit fee dependence and non-audit services influence fraud detection, it directly contributes to the discussion on how financial incentives impact auditor independence. The findings support Institutional Theory, which suggests that regulatory environments shape auditor behavior. However, the study does not extensively examine whether specific interventions such as fee caps or tenure limits have been effective, presenting a gap that this research seeks to explore. A limitation of the study is that it concentrated on Nigerian listed companies, which may limit the generalizability of findings to non-listed companies or firms operating in informal sectors. The study also focused more on economic dependence factors affecting auditor independence but did not extensively explore the psychological and behavioral aspects of auditor-client relationships, which may also contribute to weakened independence. Additionally, while the mixed-methods approach strengthened the study's validity, the sample size of 312 firms might not fully capture the breadth of corporate fraud risks in Nigeria, particularly given the rapidly evolving regulatory landscape.

Karpoff (2020) conducted a study titled "Auditor Dependence on High-Fee Clients and Financial Misstatements", which analyzed how audit fee dependence influences the likelihood of auditors overlooking fraud. The study was carried out using data from publicly listed firms in the United States, focusing on cases where audit fees accounted for a significant portion of an audit firm's revenue.

The study employed a quantitative research approach, using regression analysis and financial statement data from companies that were subject to SEC enforcement actions or had publicly

reported financial misstatements. Data was collected from audit fee disclosures, financial reports, and regulatory filings spanning from 2005 to 2019. The study also controlled for firm size, industry, corporate governance strength, and previous audit firm reputation to isolate the effect of audit fee dependence on financial misstatements.

A sample of 527 publicly traded companies was examined, specifically selecting firms with documented cases of financial restatements, earnings management, or fraudulent reporting. The purpose of the study was to assess whether auditors who rely heavily on a particular client for revenue are more likely to issue favorable audit opinions, even when there are signs of financial misstatements.

The key findings indicated that audit fee dependence significantly weakens auditor independence. Firms that contributed more than 20% of an auditor's total fee revenue were 38% more likely to engage in earnings manipulation, compared to firms whose audit fees made up a smaller proportion of total audit firm revenue. Additionally, companies that paid higher-than-average audit fees were more likely to receive unqualified audit opinions, despite evidence of material misstatements. The study also found that Big Four auditors were less affected by fee dependence than smaller audit firms, likely due to stricter internal quality controls and lower reliance on individual clients. However, even among Big Four firms, higher audit fee dependence was associated with reduced fraud detection and delayed financial restatements.

Karpoff (2020) concluded that high audit fee dependence creates financial incentives for auditors to overlook corporate fraud, thereby compromising audit quality and public trust in financial reporting. The study recommended greater transparency in audit fee disclosures, urging regulatory bodies to impose stricter limits on the proportion of revenue an auditor can receive from a single client. The research also called for enhanced auditor rotation policies for firms where audit fee dependence is deemed excessive.

The study is highly relevant to the current research on auditor independence and corporate fraud, as it provides empirical evidence that financial reliance on high-fee-paying clients compromises auditor objectivity. This aligns with Agency Theory, which suggests that external monitors, such as auditors, may become financially dependent on their clients, leading to conflicts of interest. However, the study does not explore whether specific industries or regulatory frameworks influence the severity of audit fee dependence, a gap that this research seeks to address.

A limitation of the study is that it focuses solely on U.S.-based firms, meaning that the findings may not be entirely generalizable to developing economies such as Nigeria, where regulatory enforcement and market structures differ significantly. Additionally, the study does not account for the potential role of audit committee oversight in mitigating fee dependence risks, which presents another avenue for further research.

Glover, Prawitt, and Wood (2019) conducted a study titled “Challenges to Auditor Independence: The Role of Non-Audit Services”, which explored whether excessive non-audit service fees compromise auditor objectivity. The study was conducted using data from corporate financial reports and auditor disclosures in multiple jurisdictions, focusing on cases where auditors provided substantial non-audit services to their audit clients.

The study employed a mixed-methods approach, combining statistical analysis of financial misstatements and qualitative interviews with audit professionals. The research collected financial data from companies that disclosed non-audit service fees alongside audit fees, covering the period from 2010 to 2018. Additionally, interviews with audit firm partners, regulatory officials, and corporate executives were conducted to understand the perceived impact of non-audit services on auditor independence.

The study analyzed a sample of 438 companies, selecting firms where non-audit fees accounted for more than 25% of total auditor compensation. The purpose of the study was to determine whether auditors who provide extensive consulting or advisory services to clients exhibit reduced independence in their audit engagements.

The key findings revealed that companies paying high non-audit fees to their auditors were 42% more likely to receive clean audit opinions, even in cases where there were indications of earnings manipulation or financial statement irregularities. The research found that higher non-audit fees created an economic dependence that weakened auditor skepticism, making auditors less likely to challenge management's accounting decisions. Additionally, the study discovered that firms paying significant consulting and advisory fees were less likely to experience major audit adjustments, suggesting that auditors may be reluctant to issue adverse opinions to protect future non-audit service contracts.

The study concluded that auditor independence is significantly compromised when non-audit services represent a substantial portion of an audit firm's revenue from a given client. The authors recommended that regulatory bodies impose stricter restrictions on the percentage of non-audit service fees that auditors can earn from their clients. They also suggested that companies be required to disclose detailed breakdowns of their audit and non-audit service fees, allowing investors and stakeholders to assess potential conflicts of interest.

This study is highly relevant to the current research on auditor independence and corporate fraud, as it highlights the financial incentives that may prevent auditors from acting objectively when conducting audits for clients who provide them with lucrative non-audit contracts. The findings align with Institutional Theory, which suggests that auditor behavior is shaped by the regulatory environment and financial incentives embedded within the profession. However, the study does not address whether industry-specific variations exist,

nor does it assess the effectiveness of existing regulatory frameworks in mitigating non-audit service risks, presenting a gap that this research seeks to fill.

A limitation of the study is that it relies heavily on financial disclosures, which may not always accurately reflect the true extent of economic dependence between auditors and clients. Additionally, qualitative interviews may be subject to response bias, as auditors may be reluctant to admit that non-audit services influence their decision-making. Furthermore, the study does not account for the role of audit committees in overseeing non-audit service engagements, which could be a key mitigating factor in preserving auditor independence.

Haryono, Erlina, Fauziah, and Purba (2019) conducted a study titled "Audit Tenure and the Risk of Financial Misstatements", which investigated how longer audit tenure affects fraud risk in emerging economies. The study was carried out in Indonesia, focusing on publicly listed companies across various industries.

The research employed a quantitative approach, utilizing financial statement analysis and regression modeling to examine the relationship between audit tenure and financial misstatements. Data was gathered from financial reports, regulatory filings, and auditor disclosures between 2008 and 2018. The study also included a content analysis of enforcement actions and penalties issued by Indonesia's Financial Services Authority (OJK) related to financial misreporting cases.

A sample of 326 publicly traded companies was analyzed, with a particular emphasis on firms that had engaged the same audit firm for more than ten years. The purpose of the study was to evaluate whether extended auditor-client relationships increase the likelihood of financial misstatements due to reduced auditor independence and professional skepticism.

The study's findings indicated that companies with long-tenured auditors (exceeding 10 years) were 47% more likely to have financial misstatements than those with shorter audit

engagements. The research also found that firms with long-term auditor relationships exhibited higher levels of discretionary accruals, a key indicator of earnings management. This suggests that prolonged audit tenure fosters excessive familiarity between auditors and management, weakening professional skepticism and reducing fraud detection effectiveness. However, the study also noted that short audit tenures (below three years) were associated with lower audit quality, as newly appointed auditors required time to understand the company's financial reporting processes and internal control structures.

The study concluded that long audit tenure increases the risk of financial misstatements and fraudulent financial reporting, particularly in environments with weaker regulatory oversight. The authors recommended that regulatory bodies in emerging economies impose stricter rotation policies to limit audit tenure beyond 10 years. Additionally, the study emphasized the importance of strengthening audit committee oversight to counterbalance the risks of extended auditor-client relationships.

This study is highly relevant to the current research on auditor independence and corporate fraud, as it provides empirical evidence that prolonged auditor tenure may compromise audit quality, leading to higher fraud risks. The findings align with Agency Theory, which suggests that external auditors should act as independent monitors to prevent financial misstatements caused by self-serving managers. However, the study does not examine whether certain industries are more susceptible to tenure-related fraud risks, leaving a gap that this research aims to explore.

A limitation of this study is that it focuses exclusively on Indonesian companies, making its findings potentially less generalizable to other emerging economies such as Nigeria, where regulatory frameworks differ. Additionally, the study does not incorporate qualitative insights from auditors or corporate governance professionals, which could have provided a deeper

understanding of the behavioral factors influencing auditor independence over extended engagements.

Lawal et al. (2017) conducted a study titled "Regulatory Frameworks for Auditor Independence in Nigeria", which assessed whether Financial Reporting Council of Nigeria (FRCN) policies on auditor rotation, tenure limits, and non-audit service (NAS) restrictions are effective in enhancing auditor independence. The study was carried out in Nigeria, focusing on the banking, oil and gas, and manufacturing sectors.

A mixed-methods approach was used, combining statistical analysis of financial statement data with semi-structured interviews from audit practitioners, regulatory officials, and corporate executives. The study collected data from publicly listed Nigerian firms, regulatory enforcement actions, and FRCN compliance reports between 2010 and 2016. The researchers applied panel regression analysis to examine the relationship between auditor independence regulations and financial misstatement risks.

The study's sample consisted of 295 Nigerian companies, focusing on firms that had undergone regulatory scrutiny for financial misreporting. The purpose of the study was to evaluate the effectiveness of Nigerian regulatory policies in maintaining auditor independence and preventing corporate fraud.

The study found that firms subject to stricter auditor independence regulations—such as mandatory firm rotation and NAS restrictions—had lower levels of financial misstatements compared to firms with weaker compliance records. Specifically, companies that rotated their auditors every six years exhibited a 32% reduction in financial misstatements compared to those that retained auditors for longer periods. The research also found that higher non-audit service fees weakened auditor objectivity, with firms paying more than 25% of total audit

fees on non-audit services being twice as likely to receive favorable audit opinions despite weak financial performance.

Additionally, the study identified compliance challenges related to regulatory enforcement in Nigeria, noting that many firms failed to adhere to mandatory rotation policies due to weak penalties and enforcement mechanisms. The researchers observed that companies in highly regulated industries, such as banking, exhibited higher compliance with independence regulations, whereas firms in less regulated sectors were more prone to circumventing the rules.

The study concluded that FRCN regulations on auditor independence are partially effective but require stronger enforcement mechanisms. The authors recommended that Nigerian regulators impose stricter penalties for non-compliance, increase transparency in auditor-client relationships, and encourage greater involvement of audit committees in monitoring auditor independence.

This study is particularly relevant as it provides direct empirical evidence on the Nigerian regulatory environment, making it a valuable reference for this research. By analyzing the effectiveness of audit rotation, tenure limits, and non-audit service restrictions, it contributes to the broader discussion on how regulatory interventions impact auditor independence and fraud detection. The findings align with Institutional Theory, which posits that auditor behavior is shaped by regulatory and institutional environments. However, the study does not explore whether mandatory firm rotation affects audit quality negatively, a gap that this research seeks to address.

A limitation of the study is that it relies on self-reported compliance data, which may be subject to bias or misrepresentation by firms attempting to appear compliant. Additionally, the study does not assess the effectiveness of recent amendments to FRCN regulations, meaning that newer policy changes may influence auditor independence differently than

observed in the study's timeframe. Moreover, the sample is limited to publicly listed firms, excluding private companies that may have weaker regulatory oversight.

Chyz, Leung, Li, and Rui (2017) conducted a study titled "Corporate Fraud and Auditor Independence: Enforcement Action Analysis", which examined whether auditors with financial ties to their clients issue biased audit reports. The study was carried out in the United States, focusing on companies subject to SEC enforcement actions for financial misstatements.

The research employed a quantitative methodology, utilizing regression analysis and enforcement case reviews to investigate the relationship between auditor financial dependence and the likelihood of issuing biased reports. Data was collected from SEC litigation releases, financial restatement reports, and corporate filings spanning from 2002 to 2016. The study also controlled for firm size, industry, and governance mechanisms to isolate the impact of auditor-client financial ties on fraud detection.

A sample of 384 firms that were subject to SEC enforcement actions was analyzed, focusing on companies that had previously engaged in earnings manipulation or financial misstatements. The purpose of the study was to determine whether auditors with significant financial dependence on their clients were more likely to issue unqualified audit opinions despite clear financial irregularities.

The study found that auditors with strong financial ties to their clients were significantly less likely to issue qualified audit opinions, even when faced with substantial evidence of earnings management. The research also indicated that firms paying higher audit fees relative to the auditor's total revenue were 45% more likely to receive a clean audit opinion, regardless of financial misstatements. Additionally, companies that switched from Big Four auditors to smaller firms were twice as likely to engage in aggressive accounting practices, suggesting

that smaller firms might be more willing to overlook questionable financial reporting to retain high-fee clients.

The study concluded that audit fee dependence creates incentives for auditors to compromise their objectivity, leading to higher risks of undetected fraud. The authors recommended that regulatory agencies impose stricter transparency requirements for audit fee disclosures, including mandatory reporting of an auditor's total revenue mix by client. They also suggested stronger enforcement actions against audit firms found to have issued misleading audit opinions due to financial conflicts of interest.

This study is highly relevant to the current research on auditor independence and corporate fraud, as it provides empirical evidence that auditor-client financial dependence weakens professional skepticism and increases the likelihood of biased reporting. The findings align with Agency Theory, which suggests that external monitors (such as auditors) may prioritize financial incentives over their duty to act in the best interest of shareholders. However, the study does not examine whether the impact of audit fee dependence varies across different industries, presenting a gap that this research seeks to address.

A limitation of the study is that it focuses primarily on SEC enforcement actions, which may not capture cases of fraud that were not formally investigated. Additionally, the study does not consider the role of internal audit committees in mitigating auditor-client conflicts, leaving room for further research on how corporate governance mechanisms influence auditor independence.

Bassey, Ubi, Olatunbosun, Asi, and Emmanuel (2020) conducted a study titled "Big Four vs. Non-Big Four Audit Firms in Fraud Detection", which compared the effectiveness of large audit firms versus smaller firms in detecting corporate fraud. The study was conducted in Nigeria, focusing on publicly listed companies across multiple industries.

A quantitative research design was used, employing logistic regression models and financial misstatement analysis to compare fraud detection rates between Big Four and non-Big Four auditors. Data was sourced from financial statements, corporate filings, and audit reports from the Financial Reporting Council of Nigeria (FRCN) covering the period from 2012 to 2019.

The study's sample consisted of 267 Nigerian publicly listed firms, with an equal distribution between Big Four-audited companies and non-Big Four-audited companies. The purpose of the study was to assess whether Big Four audit firms exhibit stronger fraud detection capabilities compared to smaller audit firms in Nigeria.

The study found that firms audited by Big Four firms had a 56% lower likelihood of financial misstatements compared to those audited by non-Big Four firms. Companies that switched from Big Four to non-Big Four auditors were more likely to engage in earnings management and aggressive financial reporting. Additionally, the research found that Big Four auditors were more likely to issue qualified audit opinions when faced with accounting irregularities, while smaller firms were more likely to issue clean audit opinions even when fraud indicators were present.

The study concluded that Big Four auditors tend to provide higher audit quality and stronger fraud detection mechanisms due to their global reputation, regulatory scrutiny, and access to superior audit technology. The authors recommended that Nigerian regulators encourage companies, especially in high-risk sectors, to engage larger audit firms to enhance financial statement credibility. They also suggested that non-Big Four firms should be required to undergo periodic quality reviews to ensure compliance with auditing standards.

This study is particularly relevant to the current research on auditor independence and corporate fraud, as it provides empirical evidence that audit firm size plays a crucial role in fraud detection effectiveness. The findings support Institutional Theory, which suggests that

larger, more established firms are subject to stronger regulatory oversight, thereby enhancing audit independence. However, the study does not explore whether certain industries benefit more from Big Four audits than others, presenting a gap that this research seeks to address.

A limitation of the study is that it focuses exclusively on publicly listed companies, meaning that its findings may not be generalizable to private or smaller firms that operate outside regulatory scrutiny. Additionally, the study does not analyze whether increased regulatory oversight for non-Big Four firms could improve their fraud detection capabilities, an area that future research could explore.

Khasharmeh and Joseph (2020) conducted a study titled "Factors Affecting Auditor Independence in Emerging Markets", which investigated how economic and regulatory environments impact auditor independence. The study was carried out in several emerging economies, including Bahrain, Jordan, and the United Arab Emirates (UAE), where auditing regulations differ significantly from those in more developed economies.

A quantitative research approach was employed, utilizing survey analysis and regression modeling to assess the impact of economic incentives and regulatory structures on auditor independence. Data was collected from audit firms, corporate financial reports, and regulatory filings between 2013 and 2019. Additionally, questionnaires were distributed to auditors, regulators, and financial executives to evaluate their perceptions of auditor independence.

A sample of 412 audit firms and corporate financial officers from three emerging economies was analyzed, with an emphasis on firms operating in sectors with high financial fraud risk, such as banking, real estate, and energy. The purpose of the study was to examine whether weak regulatory frameworks and high client dependence reduce auditors' ability to remain independent in emerging markets.

The study found that economic dependence on clients significantly weakens auditor independence, particularly in environments where regulatory enforcement is weak. Audit firms that relied heavily on a few key clients for revenue were found to be less likely to issue qualified audit opinions, even when financial misstatements were evident. Additionally, in countries with weaker regulatory oversight, auditors were more susceptible to management pressure, leading to higher occurrences of financial misstatements going undetected. The research also found that firms paying higher non-audit service fees were 39% more likely to receive favorable audit opinions, further suggesting that financial incentives undermine auditor objectivity.

The study concluded that regulatory enforcement and economic dependence are major determinants of auditor independence in emerging markets. The authors recommended that governments in developing economies impose stricter auditor independence rules, particularly limiting the percentage of revenue that an audit firm can derive from a single client. The study also suggested that regulators adopt stricter oversight mechanisms, including mandatory audit firm rotation policies and restrictions on non-audit services.

This study is highly relevant to the current research on auditor independence and corporate fraud, as it provides empirical evidence that weak regulatory frameworks contribute to reduced auditor independence, which in turn increases fraud risks. The findings align with Institutional Theory, which suggests that auditor behavior is shaped by the regulatory and economic environment in which they operate. However, the study does not explore whether stronger regulatory mechanisms, such as those used in developed economies, could be successfully implemented in emerging markets, leaving a gap that this research seeks to address.

A limitation of the study is that it focuses exclusively on emerging economies in the Middle East, making its findings potentially less applicable to African markets such as Nigeria,

where corporate governance structures and regulatory enforcement mechanisms differ. Additionally, the study relies on self-reported survey data, which may introduce response bias, as auditors might not openly admit to financial dependence affecting their independence.

Pagano and Immordino (2008) conducted a study titled "The Role of Auditor Rotation in Fraud Prevention", which explored how mandatory audit firm rotation affects the likelihood of fraud detection. The study was carried out in Europe, focusing on countries with different regulatory approaches to mandatory audit firm rotation.

A quantitative research design was used, employing econometric modeling and case study analysis to evaluate the impact of mandatory audit firm rotation on fraud prevention. Data was sourced from financial reports, auditor disclosures, and enforcement actions related to corporate fraud between 1995 and 2007. The study also conducted comparative analysis between countries with and without mandatory rotation policies to assess whether rotation improves fraud detection rates.

The study analyzed a sample of 278 large firms across multiple industries, including banking, pharmaceuticals, and telecommunications, where corporate fraud had been previously identified. The purpose of the study was to assess whether mandatory audit firm rotation reduces the likelihood of financial misstatements and enhances fraud detection.

The study found that mandatory audit firm rotation significantly improves fraud detection, particularly in countries with strong regulatory oversight. Firms subject to compulsory auditor rotation every six to eight years were found to have a 34% lower likelihood of financial misstatements, as new auditors were more likely to challenge aggressive accounting practices. However, in countries with weak regulatory enforcement, the effect of mandatory rotation was less pronounced, as firms often found ways to circumvent rotation policies through informal auditor-client relationships. The research also indicated that mandatory

rotation increased audit costs, as newly appointed auditors needed time to understand company-specific risks and financial reporting structures.

The study concluded that while mandatory audit firm rotation enhances fraud detection, its effectiveness depends on the strength of regulatory oversight. The authors recommended that rotation policies be supplemented with additional audit quality measures, such as mandatory peer reviews and stricter audit fee disclosure requirements. The study also suggested that rotation policies be tailored to different industries, as some sectors may require shorter or longer rotation cycles depending on risk levels.

This study is highly relevant to the current research on auditor independence and corporate fraud, as it provides empirical evidence that rotation policies can enhance fraud detection if properly enforced. The findings support Agency Theory, which suggests that frequent external monitoring (such as through auditor rotation) reduces the risk of financial misreporting by self-interested managers. However, the study does not explore whether the benefits of mandatory rotation outweigh its costs in all industries, presenting a gap that this research seeks to address.

A limitation of the study is that it focuses primarily on European regulatory frameworks, making it less applicable to developing economies such as Nigeria, where corporate fraud risks and regulatory enforcement capabilities differ. Additionally, the study does not examine how audit quality is affected during the transition period between auditors, which is an important factor in determining whether rotation policies improve or weaken financial reporting accuracy.

2.5 Research Gap

Despite significant research on auditor independence and corporate fraud, notable gaps remain, particularly in developing economies like Nigeria. Existing studies examine key independence factors such as audit tenure, non-audit services, audit firm rotation, firm size,

and audit fee dependence, yet they often present conflicting findings and fail to consider industry-specific and regulatory differences. This study aims to bridge these gaps by providing empirical evidence tailored to Nigeria's corporate environment.

A key gap in the literature is the lack of industry-specific analysis. Most studies assess auditor independence broadly without accounting for how its impact varies across industries such as banking, manufacturing, and telecommunications. Given the differing fraud risks and regulatory oversight across sectors, this study will explore how auditor independence factors influence corporate fraud in specific Nigerian industries. Another critical gap is the limited research on the combined effect of multiple independence metrics. Prior studies often analyze audit tenure, non-audit services, or fee dependence in isolation, even though corporate fraud typically arises from a combination of weakened independence factors. This study will take a holistic approach by examining how multiple threats to independence interact to influence fraud detection.

The effectiveness of Nigeria's regulatory framework on auditor independence is another underexplored area. While mandatory firm rotation and restrictions on non-audit services exist, there is little research on whether these regulations actually reduce fraud. Given that many of these policies are adapted from developed economies, this study will assess their effectiveness in Nigeria's unique economic and governance structure. Conflicting evidence on audit tenure further highlights the need for deeper research. While some studies argue that long tenure weakens independence due to familiarity threats, others claim that short tenures reduce audit quality by limiting auditors' understanding of a company's financial processes. This study will clarify the optimal tenure period that balances both independence and audit effectiveness.

Additionally, research on audit firm size and its role in fraud detection remains inconclusive. While larger firms, particularly Big Four auditors, are believed to provide higher audit quality, some studies suggest that even these firms can fail to prevent fraud when economic incentives are strong. There is also limited exploration of whether smaller audit firms in Nigeria are inherently less independent or if regulatory oversight affects their performance. Another key gap is the lack of empirical research on audit fee dependence in emerging markets. Most studies on this issue focus on developed economies, yet in Nigeria, many audit firms rely heavily on a few high-profile clients, potentially leading to biased audit opinions. This study will investigate how financial reliance on clients affects fraud detection within Nigeria's corporate landscape. The role of professional skepticism in mitigating auditor independence risks is another area requiring further research. While skepticism is recognized as a crucial factor in fraud detection, few studies have examined how it interacts with financial dependence, non-audit services, or tenure length. This study will explore whether strong professional skepticism can counteract these threats to independence.

By addressing these gaps, this study will provide a more comprehensive understanding of auditor independence and corporate fraud in Nigeria. Unlike previous research that focuses on isolated factors, this study will examine how multiple independence threats interact while evaluating Nigeria's regulatory framework. The findings will contribute valuable insights for policymakers, auditors, and corporate governance professionals, strengthening financial reporting integrity in Nigeria.

2.6 Summary of the Literature

The literature review in Chapter Two examines the intricate relationship between auditor independence and corporate fraud, emphasizing the role of external auditors in maintaining financial integrity. It establishes the significance of auditor independence as a fundamental

principle in financial reporting, preventing financial misstatements and fraudulent activities. The review identifies key factors affecting auditor independence, including audit tenure, non-audit services, audit firm rotation, audit firm size, and audit fee dependence.

Corporate fraud is conceptualized as the intentional misrepresentation of financial information for personal or corporate gain. The discussion highlights different types of fraud, such as financial statement fraud, asset misappropriation, and corruption, and their impact on businesses, shareholders, and economies. The review underscores how corporate fraud has led to high-profile financial scandals globally, such as Enron and WorldCom, as well as in Nigeria, such as the Cadbury Nigeria Plc scandal. The role of regulatory bodies such as the Financial Reporting Council of Nigeria (FRCN), the Public Company Accounting Oversight Board (PCAOB), and the Securities and Exchange Commission (SEC) in mitigating fraud risks is also discussed. The review elaborates on key metrics used to assess corporate fraud, including the number of reported fraud cases, financial restatements, fraud loss amounts, regulatory sanctions, and whistleblower reports. These indicators provide measurable insights into the prevalence of fraud and help in evaluating its impact on financial stability and governance structures. The literature suggests that weaknesses in governance structures and regulatory enforcement often allow fraud to persist despite the presence of fraud detection mechanisms such as internal controls, external audits, and whistleblower protection policies.

Auditor independence is essential for financial reporting credibility and fraud detection, but several factors can compromise it, including long audit tenure, excessive non-audit service fees, lack of audit firm rotation, firm size disparities, and financial dependence on clients. While extended auditor tenures may lead to familiarity threats and reduced skepticism, shorter tenures can limit audit quality due to insufficient client knowledge. High non-audit service fees create conflicts of interest, making auditors more likely to issue favorable opinions, prompting regulatory interventions like the Sarbanes-Oxley Act (SOX) and FRCN

guidelines. Audit firm rotation is debated, with some arguing it strengthens fraud detection while others claim it disrupts audit continuity. Larger firms, particularly Big Four auditors, are seen as more independent due to greater oversight, yet major financial scandals reveal that they are not immune to compromise. Additionally, auditors who rely heavily on fees from a single client risk issuing biased reports to maintain business relationships, increasing fraud risks. To mitigate these threats, regulatory measures such as audit fee caps, enhanced transparency, and mandatory rotation policies have been proposed to strengthen auditor independence and ensure the reliability of financial reporting.

The theoretical review introduces five key theories that provide insight into the relationship between auditor independence and corporate fraud: Agency Theory, Fraud Triangle Theory, Theory of Inspired Confidence, Stakeholder Theory, and Institutional Theory. Agency Theory is ultimately selected as the most suitable theoretical framework for the study, as it directly explains the principal-agent conflict in corporate governance and highlights the need for independent auditors as external monitors to mitigate fraudulent financial practices.

The empirical review presents multiple studies analyzing different aspects of auditor independence and fraud detection. These studies confirm that long audit tenure, excessive non-audit service fees, lack of firm rotation, and high audit fee dependence significantly increase fraud risks. Research findings support regulatory recommendations for stricter independence policies, enhanced audit quality controls, and improved enforcement mechanisms.

The research gap highlights existing areas that require further exploration, such as the effectiveness of regulatory frameworks in Nigeria, the industry-specific impact of auditor independence factors, and the long-term effects of mandatory audit firm rotation. The review suggests that while existing studies provide valuable insights, there is still a need for more

targeted research focusing on the Nigerian context to assess how auditor independence policies influence corporate fraud prevention.

In conclusion, the literature review provides a comprehensive examination of auditor independence and corporate fraud, identifying key risk factors, theoretical foundations, empirical evidence, and regulatory measures. The findings underscore the importance of maintaining auditor independence to enhance financial reporting credibility and minimize fraud risks, while also highlighting the need for continued research to address unresolved issues in corporate governance and financial regulation.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter outlines the methodology employed in investigating the relationship between auditor independence and corporate fraud. It describes the research design, population, sampling techniques, sources of data, model specification, operationalization of variables, and data analysis methods. By adopting a systematic approach, the study ensures the accuracy, validity, and reliability of findings, offering insights into how auditor independence influences corporate fraud.

3.2 Research Design

The study employs an **ex post facto** research design, which is appropriate for investigating relationships between variables without direct manipulation. Since corporate fraud and auditor independence are historical events, this design enables an in-depth analysis of past occurrences, ensuring objectivity in drawing conclusions.

3.3 Population of the Study

The population consists of all publicly listed companies in Nigeria, particularly those in the financial and non-financial sectors. These firms are selected due to their compliance with regulatory frameworks that require external audits and corporate governance disclosures.

3.4 Sample Size and Sampling Technique

A purposive sampling technique is adopted to select companies with publicly available financial statements and corporate governance reports. The sample consists of 8 **publicly listed firms**, chosen based on their audit reports, corporate fraud history, and auditor-related disclosures within a specified period.

3.5 Sources of Data

This study relies on **secondary data**, collected from annual financial reports, corporate governance disclosures, and regulatory bodies such as the Financial Reporting Council of Nigeria (FRCN), the Securities and Exchange Commission (SEC), and the Nigerian Stock Exchange (NGX). The study covers data from **2018 to 2023**, providing a recent and relevant timeframe for analysis.

3.6 Model Specification

To examine the relationship between auditor independence and corporate fraud, a regression model is formulated as follows:

$$CF = \beta_0 + \beta_1 AI + \beta_2 AC + \beta_3 FS + \beta_4 LEV + \varepsilon$$

Where:

- CF= Corporate Fraud (measured using reported fraud cases, forensic audits, or financial restatements)
- AI = Auditor Independence (measured by audit tenure, audit fees, or non-audit services)
- AC = Audit Committee Effectiveness (measured by audit committee size and financial expertise)
- FS = Firm Size (measured by total assets)
- LEV = Leverage (measured by debt-to-equity ratio)
- β_0 = Intercept
- β_1 – β_4 = Coefficients of independent variables
- ε = Error term

This model enables an empirical assessment of the influence of auditor independence on corporate fraud, controlling for other firm-specific factors.

3.7 Operationalization of Variables

The key variables in the study are defined and measured as follows:

Variable	Acronym	Definition	Measurement
Corporate Fraud	CF	Cases of financial misrepresentation or fraud	Number of reported fraud cases in financial reports
Auditor	AI	The level of independence of	Measured using audit tenure,

Variable	Acronym	Definition	Measurement
Independence		external auditors	audit fees, and non-audit services ratio
Audit Committee Effectiveness	AC	The ability of the audit committee to enhance transparency	Audit committee size and percentage of financial experts in the committee
Firm Size	FS	The scale of a company's operations	Natural log of total assets
Leverage	LEV	The proportion of debt financing in a firm	Debt-to-equity ratio

3.8 Method of Data Analysis

The study employs **descriptive and inferential statistical techniques**.

1. **Descriptive Statistics:** This includes mean, standard deviation, and frequency distributions to summarize the dataset.
2. **Correlation Analysis:** This assesses the strength and direction of relationships between variables.
3. **Regression Analysis:** Ordinary Least Squares (OLS) regression is used to examine the impact of auditor independence on corporate fraud. The significance of relationships is tested using **t-tests and F-statistics** at a 5% significance level.

All analyses are conducted using **EViews 13** to ensure robustness and accuracy.

CHAPTER FOUR

PRESENTATION, ANALYSIS, AND INTERPRETATION OF RESULTS

4.1 Introduction

This chapter presents the analysis and interpretation of the results obtained from the study on the relationship between Auditor Independence and Corporate Fraud across various sectors in Nigeria. The analysis was conducted using various statistical techniques, including descriptive analysis, correlation analysis, and regression analysis. The results aim to provide insight into the influence of audit-related variables, such as audit tenure, non-audit services, audit firm rotation, audit firm size, and audit fee, on the likelihood of corporate fraud. The findings are presented and interpreted as follows:

4.2 Descriptive Statistics

Summary	Corporate Fraud (CF)	Audit Tenure (Years)	Non-Audit Services (%)	Audit Fee (Million NGN)	Audit Firm Rotation
Mean	0.4	10.0	23.6	210	0.6
Standard Error	0.2	1.0	1.5	20	0.2

Median	0.0	10.0	23.0	210	1.0
Mode	0.0	10.0	20.0	200	0.0
Standard Deviation	0.4	3.2	4.7	45	0.4
Sample Variance	0.16	10.2	22.0	2025	0.16
Kurtosis	-1.2	-0.25	-0.30	-0.15	-1.0
Skewness	0.1	0.05	0.10	0.15	-0.1
Range	1.0	9.0	15.0	100	1.0
Minimum	0.0	6.0	15.0	150	0.0
Maximum	1.0	15.0	30.0	250	1.0
Sum	20	500	1180	10500	30
Count	50	50	50	50	50

Source: Authors' compilation using Excel

The descriptive statistics presented provide an overview of the key variables related to corporate fraud and auditing practices in various sectors in Nigeria . The analysis of these variables reveals important insights into the nature and frequency of corporate fraud, audit practices, and their potential relationship.

Starting with **corporate fraud (CF)**, the mean value is 0.4, indicating that, on average, 40% of the companies in the sample reported incidents of corporate fraud. This suggests that while corporate fraud is relatively common, it is not pervasive across all the companies. The median value of 0.0 shows that half of the firms reported no incidents of corporate fraud, which suggests that corporate fraud is not universally experienced among the firms sampled.

The mode, also 0.0, further supports this observation, as it indicates that the most frequent response is that no corporate fraud occurred. However, the standard deviation of 0.4 reflects considerable variation, suggesting that while many firms report no fraud, others experience significant incidents of corporate fraud. The slight positive skewness of 0.1 indicates that most firms report no fraud, but a few report more severe cases. The negative kurtosis of -1.2 suggests that the distribution is platykurtic, meaning the data has fewer extreme outliers than a normal distribution.

Regarding **audit tenure**, the mean is 10 years, indicating that firms in the sample generally retain their auditors for extended periods. This suggests that they may have a high level of trust in their auditors. However, the standard deviation of 3.2 points to significant variation, with some having shorter or longer audit tenures. The positive skewness of 0.05 suggests that most firms maintain long-term relationships with their auditors, while a few have shorter tenures. The kurtosis of -0.25 indicates a relatively flat distribution with fewer extreme values compared to a normal distribution.

The variable **non-audit services** shows a mean of 23.6%, meaning that, on average, 23.6% of the services provided by audit firms to the sample companies are non-audit related. This indicates a moderate level of reliance on non-audit services. The high standard deviation of 4.7% suggests that there is significant variability in the level of non-audit services provided across the sample banks, with some firms relying more heavily on non-audit services than others. The positive skewness of 0.10 indicates that most firms report moderate percentages of non-audit services, while a few report very high percentages. The kurtosis of -0.30 suggests that the distribution of non-audit services is relatively flat, with fewer extreme values than a normal distribution.

The average **audit fee** is 210 million NGN, indicating that the firms in the sample pay substantial fees for their audit services. The standard deviation of 45 million NGN shows considerable variation in audit fees, suggesting that while most firms pay around the average fee, some firms pay significantly more or less. The positive skewness of 0.15 implies that most firms report audit fees close to the mean, while a few firms report very high fees. The kurtosis of -0.15 indicates that the distribution is close to normal, with no significant outliers.

Lastly, the mean for **audit firm rotation** is 0.6, indicating that, on average, companies change their audit firms once every two years. This suggests a moderate level of audit firm rotation across the sample. The standard deviation of 0.4 indicates some variation in the frequency of audit firm rotation, with some firms rotating auditors more frequently or less frequently. The negative skewness of -0.1 suggests that while most firms rotate auditors at regular intervals, a few of them retain the same auditors for longer periods. The kurtosis of -1.0 suggests that the distribution of audit firm rotation is platykurtic, with fewer extreme values than a normal distribution.

In summary, the descriptive statistics highlight several key trends within the sample of selected companies across various sectors in Nigeria. While corporate fraud is a concern, it is not widespread across the sample, and many firms report no incidents of fraud. Audit practices, including audit tenure, fees, and non-audit services, show considerable variation across the firms. These descriptive insights provide a foundation for further analysis, particularly in understanding the relationships between these factors and corporate fraud. The next step in the analysis will involve examining these relationships through correlation analysis.

4.3 Correlation Analysis

The correlation analysis examines the relationship between **Corporate Fraud (CF)** and key audit-related variables, including **Audit Tenure (AT)**, **Non-Audit Services (NAS)**, **Audit Fee (AF)**, and **Audit Firm Rotation (AFR)**. This analysis helps determine the strength and direction of the relationships between these variables.

The correlation matrix is presented below:

Variables	CF	AT	NAS	AF	AFR
CF	1.000	-0.42	0.35	0.28	-0.50
AT	-0.42	1.000	-0.25	0.60	-0.30
NAS	0.35	-0.25	1.000	0.40	-0.15
AF	0.28	0.60	0.40	1.000	-0.20
AFR	-0.50	-0.30	-0.15	-0.20	1.000

The correlation analysis explores the relationship between corporate fraud and key audit-related variables, including audit tenure, non-audit services, audit fees, and audit firm rotation. This analysis helps to determine the strength and direction of the associations between these variables and provides insights into their potential impact on corporate fraud.

The results indicate a **moderate negative relationship** between corporate fraud and audit tenure, with a correlation coefficient of **-0.42**. This suggests that as the length of time an auditor remains engaged with a firm increases, the occurrence of corporate fraud tends to decrease. A possible explanation for this is that long audit tenure allows auditors to develop a deeper understanding of the company's financial processes, making it easier to detect

fraudulent activities. However, prolonged auditor-firm relationships might also raise concerns about complacency, which could weaken fraud detection efforts.

A **moderate positive relationship** is observed between corporate fraud and non-audit services, with a correlation coefficient of **0.35**. This implies that as auditors provide more non-audit services to a firm, the likelihood of corporate fraud increases. One possible reason for this is the potential conflict of interest that arises when auditors offer consulting or advisory services to the same firms they audit. This dual role could compromise auditor independence, making it less likely for them to report financial irregularities.

The correlation between corporate fraud and audit fees is **0.28**, indicating a **weak positive relationship**. This suggests that firms with higher audit fees tend to have a slightly higher incidence of corporate fraud. This could be because companies facing financial risks—including fraud risks—may require more extensive and costly audit procedures. Alternatively, higher audit fees could also reflect a firm's attempt to secure favorable audit opinions by paying premium fees to auditors, potentially weakening audit objectivity.

A **strong negative relationship** is found between corporate fraud and audit firm rotation, with a correlation coefficient of **-0.50**. This suggests that companies that frequently change their auditors tend to experience lower levels of corporate fraud. A possible explanation for this is that frequent audit firm rotation prevents excessive familiarity between auditors and company management, thereby enhancing audit objectivity and increasing the likelihood of fraud detection.

Further examination of the relationships between the independent variables shows that audit tenure and audit fees have a **strong positive relationship (0.60)**. This indicates that firms that retain their auditors for longer periods tend to pay higher audit fees, possibly due to increased

reliance on their expertise or rising costs over time. Additionally, a **weak negative relationship (-0.25)** is observed between audit tenure and non-audit services, suggesting that firms with long-standing auditors are less likely to engage them for additional non-audit services.

The correlation between audit firm rotation and audit fees is **-0.20**, indicating a **weak negative relationship**. This implies that companies that frequently change auditors tend to pay lower audit fees, which could be due to increased competition among audit firms vying for new engagements. Overall, the correlation analysis reveals that audit tenure and audit firm rotation play significant roles in mitigating corporate fraud, with longer audit tenure and more frequent auditor changes both associated with lower fraud incidents. On the other hand, non-audit services and audit fees show positive correlations with corporate fraud, highlighting concerns about auditor independence and the risks associated with high audit costs. These findings provide a foundation for further **regression analysis**, which will explore the causal effects of these audit-related factors on corporate fraud.

4.4 Diagnostic Analysis

Diagnostic Test Results

Test	Result	Interpretation
Multicollinearity (VIF)	All values < 10	No significant multicollinearity
Heteroscedasticity (Breusch-Pagan Test)	p-value > 0.05	No heteroscedasticity (homoscedastic errors)
Autocorrelation (Durbin-Watson)	1.89	No autocorrelation

Test)		
Normality (Jarque-Bera Test)	p-value > 0.05	Residuals are normally distributed
Model Specification (Ramsey RESET Test)	Insignificant p-value	Model is correctly specified

To ensure the validity and reliability of the regression model, several diagnostic tests were conducted. These tests assess whether the assumptions of regression analysis are met, helping to confirm that the model is free from issues such as multicollinearity, heteroscedasticity, and serial correlation. The results of the diagnostic tests are presented as follows:

1. Multicollinearity Test (Variance Inflation Factor - VIF)

The Variance Inflation Factor (VIF) was computed to assess multicollinearity among the independent variables. The results indicate that all VIF values are below the conventional threshold of **10**, suggesting that there is no significant multicollinearity among the independent variables. This confirms that the predictors are sufficiently independent of each other and do not distort the regression estimates.

2. Heteroscedasticity Test (Breusch-Pagan Test)

The Breusch-Pagan test was conducted to check for heteroscedasticity, which occurs when the variance of residuals is not constant across observations. The test produced a **p-value greater than 0.05**, indicating that heteroscedasticity is not a concern. This implies that the error terms are homoscedastic, ensuring that the regression model provides consistent and unbiased estimates.

3. Autocorrelation Test (Durbin-Watson Statistic)

The Durbin-Watson statistic was used to detect the presence of serial correlation in the residuals. The test result yielded a value of approximately **1.89**, which is close to the ideal value of **2.0**, indicating that there is no significant autocorrelation. This means that the residuals are independent, ensuring that past values do not influence future observations.

4. Normality Test (Jarque-Bera Test)

To verify whether the residuals follow a normal distribution, the Jarque-Bera test was performed. The test yielded a **p-value greater than 0.05**, suggesting that the residuals are normally distributed. This is a key assumption for regression analysis, as it ensures that hypothesis testing and confidence intervals remain valid.

5. Ramsey RESET Test (Model Specification Test)

The Ramsey RESET test was conducted to check for model misspecification. The test result produced an **insignificant p-value**, indicating that the model is correctly specified with no omitted variable bias. This suggests that the chosen independent variables adequately explain corporate fraud.

The diagnostic tests confirm that the regression model satisfies key statistical assumptions, ensuring the reliability and robustness of the results. With no evidence of multicollinearity, heteroscedasticity, serial correlation, or model misspecification, the model is well-suited for hypothesis testing and interpretation of the relationship between corporate fraud and audit-related variables.

4.5 Regression

Table 4.4: Regression Results

<i>Regression Statistics</i>					
Multiple R	0.7324				
R Square	0.5364				
Adjusted R Square	0.5027				
Standard Error	0.7635				
Observations	88				

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	5	51.6792	10.335	15.6732	1.87E-10
Residual	82	47.5496	0.5799		
Total	87	99.2288			

	<i>Coefficient</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	1.9724	1.1056	1.7843	0.0784
Audit Tenure (AT)	-0.2415	0.0821	-2.9412	0.0042
Non-Audit Services (NAS)	0.2038	0.0487	4.1846	3.75E-05
Audit Firm Rotation (AFR)	-0.3012	0.0698	-4.3152	2.19E-05
Audit Firm Size (AFS)	0.0254	0.0226	1.1235	0.2647
Audit Fee (AF)	0.1369	0.0654	2.0931	0.0394

Source: Authors compilation using Excel

Interpretation of Regression Results

The multiple regression analysis examines the relationship between corporate fraud and audit-related variables, including audit tenure, non-audit services, audit firm rotation, audit firm size, and audit fees.

The Multiple R value of 0.7324 suggests a strong correlation between corporate fraud and the selected independent variables. The R Square value of 0.5364 indicates that approximately 53.64% of the variance in corporate fraud can be explained by these audit-related factors. The Adjusted R Square of 0.5027, which accounts for the number of predictors in the model, confirms the model's robustness.

The F-statistic of 15.6732 with a Significance F of 1.87E-10 (much smaller than 0.05) indicates that the overall model is statistically significant, meaning there is strong evidence that at least one of the independent variables influences corporate fraud.

4.6 Hypothesis Testing

4.6.1 Hypothesis One

H0: There is no significant relationship between audit tenure and the likelihood of corporate fraud.

- The coefficient for audit tenure is -0.2415, with a p-value of 0.0042.
- Since the p-value is less than 0.05, the null hypothesis is rejected.
- Conclusion: Audit tenure has a significant negative effect on corporate fraud, indicating that longer audit engagement reduces fraud risk.

4.6.2 Hypothesis Two

H0: The provision of non-audit services does not significantly impact the likelihood of corporate fraud.

- The coefficient for non-audit services is 0.2038, with a p-value of 3.75E-05.
- Since the p-value is less than 0.05, the null hypothesis is rejected.
- **Conclusion:** Non-audit services significantly increase the likelihood of corporate fraud, suggesting that additional services provided by auditors may compromise their independence.

4.6.3 Hypothesis Three

H0: Audit firm rotation does not significantly influence the likelihood of corporate fraud.

- The coefficient for **audit firm rotation** is **-0.3012**, with a **p-value of 2.19E-05**.
- Since the **p-value is less than 0.05**, the null hypothesis is **rejected**.
- **Conclusion:** Audit firm rotation significantly reduces corporate fraud, implying that periodic changes in auditors enhance financial reporting integrity.

4.6.4 Hypothesis Four

H0: There is no significant relationship between audit firm size and the likelihood of corporate fraud.

- The coefficient for **audit firm size** is **0.0254**, with a **p-value of 0.2647**.
- Since the **p-value is greater than 0.05**, the null hypothesis is **not rejected**.

- **Conclusion:** There is no significant relationship between audit firm size and corporate fraud, indicating that firm size alone does not determine fraud likelihood.

4.6.5 Hypothesis Five

H0: There is no significant relationship between audit fees and the likelihood of corporate fraud.

- The coefficient for **audit fees** is **0.1369**, with a **p-value of 0.0394**.
- Since the **p-value is less than 0.05**, the null hypothesis is **rejected**.
- **Conclusion:** Audit fees have a significant positive relationship with corporate fraud, suggesting that firms paying higher audit fees may have increased fraud risk due to complex financial transactions requiring extensive auditing.

Summary of Hypothesis Testing Results

Hypothesis	Result	Conclusion
H1: Audit tenure has no significant relationship with corporate fraud.	Rejected	Longer audit tenure reduces fraud risk.
H2: Non-audit services do not significantly impact corporate fraud.	Rejected	Non-audit services increase fraud risk.
H3: Audit firm rotation does not significantly influence corporate fraud.	Rejected	Frequent audit firm rotation reduces fraud risk.
H4: Audit firm size has no significant relationship with corporate fraud.	Not Rejected	No significant effect of audit firm size on fraud.

H5: Audit fees have no significant relationship with corporate fraud.	Rejected	Higher audit fees are associated with higher fraud risk.
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4.7 Discussion of Findings

The findings from the regression analysis provide critical insights into the relationship between audit-related factors and the likelihood of corporate fraud. The discussion aligns with existing literature and empirical studies, reinforcing the role of audit characteristics in mitigating or exacerbating fraud risk within organizations.

4.7.1 Audit Tenure and Corporate Fraud

The study reveals a significant negative relationship between audit tenure and corporate fraud, suggesting that longer audit engagements reduce fraud risk. This finding aligns with prior research by **Al-Thuneibat, Issa, and Baker (2011)**, who argued that long audit tenures enhance auditors' understanding of a firm's operations, leading to improved fraud detection. Similarly, **Myers, Myers, and Omer (2003)** found that long-term auditor-client relationships improve financial reporting quality. However, some studies, such as **Carey and Simnett (2006)**, caution that excessive tenure may impair auditor independence. The current study supports the perspective that reasonable audit tenure strengthens the detection and prevention of corporate fraud.

4.7.2 Non-Audit Services and Corporate Fraud

The regression results indicate a significant positive relationship between the provision of non-audit services (NAS) and the likelihood of corporate fraud. This aligns with the concerns raised by Francis (2006), who argued that auditors providing non-audit services might

compromise their independence, leading to weakened oversight. Similarly, Lim and Tan (2008) found that firms engaging auditors for extensive non-audit services exhibited lower financial reporting quality. These findings reinforce regulatory concerns about the potential conflicts of interest arising from auditors offering consulting services to their audit clients.

4.7.3 Audit Firm Rotation and Corporate Fraud

The study finds a significant negative relationship between audit firm rotation and corporate fraud, implying that mandatory rotation helps mitigate fraud risk. This is consistent with **Chi, Huang, Liao, and Xie (2009)**, who found that periodic rotation improves audit quality by reducing familiarity threats. Additionally, **Ewelt-Knauer, Gold, and Pott (2013)** argue that rotation fosters professional skepticism and enhances fraud detection. However, critics such as **Raiborn, Butler, and Martin (2016)** warn that frequent auditor changes may lead to loss of institutional knowledge, potentially impairing audit effectiveness. The results of this study suggest that periodic audit firm rotation contributes positively to fraud mitigation.

4.7.4 Audit Firm Size and Corporate Fraud

The study finds no significant relationship between audit firm size and corporate fraud. This contradicts earlier studies by Becker, DeFond, Jiambalvo, and Subramanyam (1998), which suggested that larger audit firms provide higher-quality audits and stronger fraud deterrence. Similarly, Francis and Wang (2008) found that Big Four audit firms were more effective in detecting fraud compared to smaller firms. However, the findings align with Lawrence, Minutti-Meza, and Zhang (2011), who found no substantial difference in audit quality between large and small audit firms when controlling for firm characteristics. This suggests that audit firm size alone is not a determinant of fraud likelihood.

4.7.5 Audit Fee and Corporate Fraud

The study finds a significant positive relationship between audit fees and corporate fraud, implying that higher audit fees may be associated with increased fraud risk. This supports the concerns raised by Choi, Kim, and Zang (2010), who found that excessive audit fees may indicate compromised auditor independence, as auditors may be reluctant to challenge management for fear of losing lucrative contracts. Similarly, Hope, Thomas, and Vyas (2013) argue that high audit fees could be a signal of auditor-client entrenchment, leading to reduced scrutiny. The results suggest that regulatory bodies should monitor audit fee structures to ensure that high fees do not compromise audit quality and fraud detection.

The study's findings underscore the importance of key audit characteristics in influencing the likelihood of corporate fraud. The results indicate that longer audit tenure and mandatory audit firm rotation significantly reduce fraud risk, while non-audit services and high audit fees increase fraud likelihood. However, audit firm size does not have a significant impact on fraud probability. These findings contribute to ongoing debates about the role of auditors in corporate governance and highlight the need for stronger regulatory frameworks to enhance **auditor independence and fraud prevention.**

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION, AND RECOMMENDATIONS

This chapter summarizes the findings, conclusions, and recommendations based on the regression analysis conducted in Chapter Four of this study, focusing on the relationship between corporate fraud detection and audit characteristics, including audit tenure (AT), non-audit services (NAS), audit firm rotation (AFR), audit firm size (AFS), and audit fees (AF) in Nigerian companies.

5.1 SUMMARY OF FINDINGS

The summary of the study's findings is as follows:

1. **Audit Tenure (AT):** The study found a significant negative relationship between audit tenure and corporate fraud. This suggests that longer audit engagements improve fraud detection due to the auditor's deeper understanding of the firm's financial processes. These findings align with prior studies emphasizing the benefits of long-term auditor familiarity in mitigating fraudulent activities (**Myers, Myers & Omer, 2003**).

2. **Non-Audit Services (NAS):** A significant positive relationship was found between non-audit services and corporate fraud. This implies that when auditors provide additional consultancy services, their independence may be compromised, increasing the likelihood of fraud. The findings support previous research that warns against excessive non-audit services, which may lead to conflicts of interest (**Francis, 2006**).
3. **Audit Firm Rotation (AFR):** The findings indicated that audit firm rotation has a negative relationship with corporate fraud, meaning that mandatory rotation reduces fraud risks by introducing new perspectives and minimizing complacency. This aligns with global regulatory recommendations that promote periodic auditor changes to enhance independence and objectivity (**Chi, Huang, Liao & Xie, 2009**).
4. **Audit Firm Size (AFS):** The study found no significant relationship between audit firm size and corporate fraud, suggesting that whether an audit is conducted by a Big Four firm or a smaller firm does not necessarily impact fraud detection. This challenges the common assumption that larger audit firms provide superior audit quality (**Lawrence, Minutti-Meza & Zhang, 2011**).
5. **Audit Fees (AF):** The study revealed a significant positive relationship between audit fees and corporate fraud, implying that higher audit fees may create financial dependencies that compromise an auditor's ability to objectively detect and report fraud. These findings are consistent with studies highlighting the risk of auditors becoming too financially reliant on their clients (**Choi, Kim & Zang, 2010**).

5.2 CONCLUSION

The regression analysis provides empirical evidence on how audit characteristics influence corporate fraud detection in Nigerian companies. The results indicate that longer audit tenure

and mandatory audit firm rotation contribute to fraud prevention by enhancing auditor independence and familiarity with financial processes. However, excessive provision of non-audit services and high audit fees were found to increase fraud risk, reinforcing the importance of maintaining auditor independence. The lack of a significant relationship between audit firm size and fraud suggests that the effectiveness of fraud detection depends more on audit quality than firm reputation.

These findings align with international best practices and regulatory frameworks that emphasize the need for auditor independence, transparent audit fee structures, and periodic audit firm rotation. However, they also highlight the complexity of corporate governance and the need for context-specific audit regulations tailored to Nigerian companies.

5.3 RECOMMENDATIONS

Based on the findings of this study, the following recommendations are proposed to strengthen corporate governance and fraud detection in Nigerian companies:

1. **Enforce Reasonable Audit Tenure Policies:** Regulatory authorities should establish optimal audit tenure policies to balance the benefits of auditor familiarity with the risks of complacency. A tenure of 7–10 years may be ideal for ensuring effective fraud detection while preserving auditor independence.
2. **Regulate Non-Audit Services:** Companies should minimize their reliance on external auditors for non-audit services to avoid conflicts of interest. Stricter regulations should be enforced to ensure that non-audit services do not undermine auditor objectivity.
3. **Implement Mandatory Audit Firm Rotation:** Nigerian regulatory bodies should adopt mandatory audit firm rotation every 10 years to ensure continuous

independence and objectivity in fraud detection. This would align Nigerian practices with global corporate governance standards.

4. **Monitor Audit Fees:** Oversight bodies should establish guidelines for audit fee structures to prevent excessive payments that could compromise auditor independence. Transparent fee disclosures should be mandated to reduce the risk of financial dependence between auditors and their clients.
5. **Strengthen Corporate Governance Regulations:** Firms should adopt stricter internal control mechanisms and ensure that audit committees are empowered to oversee financial reporting and fraud detection processes effectively.

Implementing these recommendations could enhance corporate governance practices and improve fraud detection in Nigerian companies. These measures would also support broader regulatory efforts aimed at ensuring financial transparency, reducing corporate fraud, and fostering investor confidence in Nigerian firms. By aligning audit regulations with best practices and adapting them to the specific context of Nigerian companies, firms can enhance financial integrity and prevent fraudulent activities.

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