American Research Journal of Humanities Social Science (ARJHSS)

E-ISSN: 2378-702X
Volume-04, Issue-09, pp-77-85
www.arjhss.com

Research Paper Open Access

AUDITORS INDEPENDENCE AND AUDIT QUALITY OF QUOTED DEPOSIT MONEY BANKS IN NIGERIA

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Abstract: The study examines the nexus between Auditors Independence and Audit Quality of Quoted Deposit Money Banks in Nigeria. The study measured Auditors Independence using the variables of joint audit, provision of non-audit services and auditor's competence, while, audit quality on the other hand was measured using compliance to auditing guideline. Three hypotheses were formulated to guide the investigation and the statistical test of parameter estimates was conducted using Binary Logit Regression Model. The research design used is Ex Post Facto design and data for the study were obtained from the Nigeria Stock Exchange Factbook, Annual Reports and Accounts. The findings of the study showed Joint Audit and Auditor's Competence have a significant and positive relationship with on Compliance to Auditing Guideline, while, on the other hand, Non-Audit Services have a significant but negative relationship with Compliance to Auditing Guideline of quoted listed Deposit Money Bank in Nigeria at 5% level of significance. Based on this, it was recommended amongst others that there is need for auditors to regularly receive training courses on contemporary auditing guidelines/standards that would prove beneficial to their auditing practices, thereby adding value to the quality of audit.

Keywords: Joint Audit, Provision of Non-Audit Services, Auditor's Competence, Auditing Guideline

I. Background of the Study

In recent times, producing financial reports which are relevant globally has become a necessity. Hence, disclosing high quality financial statements is vital since it will positively impact providers of funds as well as other investors in taking investment as well as related funding decisions. The Nigerian business environment has been perceived in some quarters as not too conducive to investors; both local and foreign. Adjudged reasons for this assertion include the inability of financial reports to meet the needs of this group of users. The prevalence of fraud, excessive earnings management and other financial crimes in the country has reduced the level of confidence reposed in these financial statements; and in the ability of these statements to perform their requisite functions. In light of the cost of frauds to the business and the offender, it is important to develop strategies to prevent or detect business fraud, taking a cursory look at the risk factors associated with business, giving due attention to the motives attached with it, and establishing how to effectively to manage it on a daily basis (Amahalu, Egolum & Obi, 2019). Hence, the auditors are looked upon as 'messiahs' in correcting this anomaly, and thereby directly, or indirectly creating a balance in the functioning of the business environment.

Auditing and the audit process provide an evaluation of the probability of material misstatement and reduce the possibility of undetected misstatement to a reasonable or appropriate assurance level. It is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondences between the information and the establish criteria. The audit of accounts in the Banking sector by an independent auditor is obligatory by statutes which define the duties, rights and powers, this is essential because of the separation of ownership from the management in the corporate sector. The owner needs someone who can keep a professional watch on the management and to whom they can trust for the reliability of the accounts since the prerogative of preparing the financial statement is that of the management. In order for users of the financial statement to gain assurance that the financial statement data are being reported and measured properly and also fairly presented, independent certified auditors audit the financial statement and express an opinion on the statements. Thus the reliability of the financial reports is premised on the assumption that the certified auditor is not influenced by their clients or other bodies. Where financial reports are not credible, investors and creditors would have little or no confidence in them. Auditors must therefore be independent both in fact and appearance. Auditor's independence is seen as the backbone of the audit profession. It forms an integral part of the financial reporting process and a necessity for adding value to all audited financial reports. Audit independence is an important ingredient in audit practice. Amahalu and Obi (2020) stated that independence is of the mind, characterised by objectivity and integrity on the part of the auditor, hence independence is fundamental to the reliability of quality auditors' reports.There is the belief that auditing report issued by an auditor should be of reputable quality, however, the quality of an audit depends on the relationship between an auditor and the clients. Seen from this perspective, audit quality in this case refers to credibility of the audit opinion which is a measurement of the degree of confidence users place upon the information provided by the auditor. It is against this backdrop, that this study, investigates relationship between auditors independence and audit quality of quoted deposit money banks in Nigeria

II. Statement of the Problem

Banks and other financial intermediaries are the hubs of the world's recent financial crises. The drop in value of their asset portfolios, together with fraudulent acts of presenting fictitious financial statements and lack of non-compliance with corporate governance principles mainly as a result of distorted credit management, were some of the core structural sources of the crises (Sanusi, 2010). The board is seen as the major actor responsible for the failure of corporations like Enron Corporation, Tyco International, WorldCom, Global Crossing, Arthur Anderson, Oceanic bank plc., Cadbury Plc and others. The questionable role of auditors in enhancing the quality, reliability, and credibility of financial performance has been controversial. This is because auditor's independence from their clients can be tampered with through poor regulation and supervision of the auditing practice, provision of non-audit services to the client, auditor's personal interest in the client's business among others. The decline in the confidence in financial reporting and auditing arising from corporate collapses and audit failures in a number of countries including Nigeria is the background of reforms in audit independence and quality control. The consequence of this has been greater regulation of the profession in an attempt to restore public and investor confidence in corporate financial reporting. Some banks that are still in business and are also listed in the Nigeria stock exchange have not adopted the audit rotation, tenure and fees as stated by the International Federation of Accountants (IFAC). The directors of banks are empowered to appoint, reappoint, and remove their external auditors and they are also to fix the external auditor‘s fees using the guidelines of the Auditor General as an aid. The problem so created is that the directors are officers of the organization, who also have the responsibility of managing the funds, budgeting, spending including awarding of contracts and the preparation of financial statements. The same people who are therefore placed in a position to render stewardship accounts are now given the power to hire and fire external auditors who would audit the accounts of their own activities. This runs counter to the ideal principles of public accountability which will also negatively affect their independence in expressing their audit opinion.

In a bid to examining the relationship between auditors' independence and audit quality, several extant literatures have been done resulting to inconsistent views and mixed findings. For example, Dal-Maso, Lobo, Mazzi and Paugam (2019); Ezejiofor and Erhirhie (2018); Amahalu, Okeke and Obi (2017) documenyed a positive relationship between auditors' independence and audit quality. On the other hand, Al-Shaer (2020) reported a negative relationship between auditors' independence and audit quality and Dobre (2016) found no significant relationship between auditors' independence and audit quality. Not reaching a definite conclusion on the relationship between auditors' independence and audit quality by the reviewed literatures created a lacuna which this study tends to fill. Hence, the need for this study.

III. Objectives of the Study

The main objective of this study is to ascertain the nexus between Auditors Independence and Audit Quality of quoted Deposit Money Banks in Nigeria. The specific objectives are to:

i. Determine the relationship between Joint Audit and Compliance to Auditing Guideline of quoted Deposit Money Banks in Nigeria.

ii. Ascertain the relationship between Non-Audit Services and Compliance to Auditing Guideline of quoted Deposit Money Banks in Nigeria.

iii. Assess the relationship between Auditors Competence and Compliance to Auditing Guideline of quoted Deposit Money Banks in Nigeria.

IV. Research Hypotheses

The following null hypotheses were formulated to proffer solutions to the research questions:

Ho_1: There is no significant relationship between Joint Audit and Compliance to Auditing Guideline of quoted Deposit Money Banks in Nigeria.

Ho_2: There is no significant relationship between Non-Audit Services and Compliance to Auditing Guideline of quoted Deposit Money Banks in Nigeria.

Ho_3: There is no significant relationship between Auditors Competence and Compliance to Auditing Guideline of quoted Deposit Money Banks in Nigeria.

Theoretical Review

Auditors Independence

Auditor's independence is defined as an auditor's unbiased mental attitude in making decisions throughout the audit and financial reporting process. Danescu and Spatacean (2018) describe the concept of auditors' independence as the ability to maintain an objective and impartial mental attitude throughout an audit. Audit independence requires an attitude of responsibility separate from the client's interest. The auditor must maintain anattitude of healthy professional skepticism. Auditor's independence is the auditors' ability to maintain mental attitude objectively and impartially in the interest of the client in conducting the audit, analysing the results and attesting to the the audit report without influence (Chung, Kim & Sunwoo, 2021).

Joint Audit

Joint audit is a method where two independent audit firms work together to issue one audit opinion to a firm (PwC, 2011). Joint audit is an audit on a legal entity (the auditee) by two or more auditors to produce a single audit report, thereby sharing responsibility for the audit. Generally, joint audit can be described as the coming together of more than one audit firm to audit the financial statement of a given legal entity with the common goal of arriving at a single audit report. This act of collaboration in professional audit practice, as described above, clearly depicts the concept of Joint Audits. It follows therefore that, in a joint audit, both audit firms share the responsibility of executing the entire audit task and jointly share the rewards thereof in an agreedproportion, as well as bear joint liability in case of an audit failure (Okaro, Okafor & Ofoegbu, 2018).

Non-Audit Services

Non-Audit Services (NAS) are services offered by audit establishment which does not cover audits such as bookkeeping, tax evaluation, advisory functions containing investment banking aids, corporate strategic planning, human resource planning, computer hardware, software setting up, implementation, as well as internal audit subcontracting ((Istrate, Bunget & Popa, 2020). However, significant non-audit services revenue can cause conflict of interest since it diminishes public opinion on audit quality for the financial reporting. This has more influence on auditor's autonomy because when the auditor is covering both audits as well as non-audit services to a particular customer; this could result to conflict in interest and reduce the autonomy of the auditor (Abiahu, Egbunike, Udeh, Egbunike & Amahalu, 2019).

2.1.4Auditors Competence

Competency is the knowledge and expertise necessary to complete the task. Competence can be defined as a characteristic of individuals who contribute successful job performance and achieving organizational results. Competence can be understood as a combination of skills, personal attributes, and knowledge is reflected through performance behaviors that can be observed, measured and evaluated. The role of internal auditors is increasingly important with the increasing complexity of the system of government. Without the internal auditor, the head of government units do not have the resources free internal (independent) on the activities of organizations for both governmental organizations and other organizations. Each practitioner must maintain his professional knowledge and expertise at a required level on an ongoing basis, so that the client or employer can receive professional services provided competently based on the latest developments in practice, legislation, and methods of carrying out the work (Zhang, Xu & Li, 2017). Every Practitioner must act professionally and in accordance with professional standards and professional codes of ethics that apply in providing professional services.

Audit quality

Audit quality refers to the extent to which an auditor's independence, integrity, and objectivity impact auditors' opinions on the quality of financial statements (Amahalu & Obi, 2020). Audit quality refers to matters that contribute to the likelihood that the auditor will achieve the fundamental objective of obtaining reasonable assurance that the financial report as a whole is free of material misstatement; and ensure material deficiencies detected are addressed or communicated through the audit report. This includes appropriately challenging key accounting estimates and treatments that can materially affect the reported financial position and results. Quality audit is the process of systematic examination of a quality system carried out by an internal or external quality auditor or an audit team. It is an important part of an organization's quality management system and is a key element in the ISO quality system standard, ISO 9001.

Joint audit and Audit Quality

One of the greatest slurs on audit practice in Nigeria is the accusation that some auditors accept bribes in the course of duty (Wilson, McNellis & Latham, 2018). If, therefore, joint audit will checkmate the tendency of some auditors to act unethically for fear of being exposed by his joint auditor, then it is worthwhile even if additional cost will be involved. Perhaps, the argument about improving audit quality should be of prime concern given the devastating effect of poor audit quality on investors and other stakeholder groups. The posture of the accounting profession that they act in the public is increasingly being assailed by researchers and others who feel are aggrieved by the high rate of audit failures (Sari & Indarto, 2019). Economic dependence of auditors on their clients has also being fingered as being capable of coloring the independence of the auditors and thus rendering them incapable of acting in the public interest(Garcia-Blandon, Argilés-bosch & Ravenda, 2019). In some cases auditors in both developing and developed countries have acted in less than honest manner thus compromising their ability to act in compliance of relevant law (Nurhayati & Prastiti, 2019; Quick & Schmidt, 2018).

Non-Audit Service and Audit Quality

Non-audit services may be any services other than audit provided by an audit client by an incumbent auditor. These services include corporate and individual tax planning, internal audit outsourcing, consulting related to mergers and acquisitions, information systems and human resources, as well as head hunting; consulting services; tax work and tax advocacy; designing systems including information technology systems and advising on future direction of the client’s business. Auditors seek to provide NAS because of the considerable economies of scope that ensue cost savings that arise when both types of services are provided by the same firm, (Dattin, 2017). Proponents of the provision of audit services argue that synergies of knowledge spillover and audit efficiency arise from providing both audit and non-audit services (Ardhani, Subroto & Hariadi, 2019; Daugherty, Dickins, Hatfield & Higgs, 2013). The opponents contend that provision of non-audit services increases the auditor’s financial reliance on the client and therefore may impair auditor’s independence (Bratten, Causholli & Omer, 2019; Garcia-Blandon, Argilés-bosch & Ravenda, D. (2019).

Auditors Competence and Audit Quality

Auditors, assess whether activities, financial transactions, and information are, in all material respect, in compliance with the authorities which govern the audited entity (Amahalu, Abiahu, Obi & Nweze, 2018). Auditors in compliance audit look for material deviations or departure from established criteria which could be based on laws and regulations and principles of sound financial management (Zahmatkesh & Rezazadeh, 2017; Kertarajasa, Marwa & Wahyudi, 2019). Meanwhile, before an individual can assume the role of an audit professional they should first qualify as a professional accountant. The aim of the audit standard is to require professional accountants to acquire the specific capabilities (i.e., the professional knowledge, professional skills and professional values, ethics, and attitudes) they need to carry out their work as competent audit professionals (Wiguna, Yasa & Suardani, 2019; Ismail, Merejok, Dangi & Saad, 2019).

Theoretical review

Agency Theory

Agency theory, which was first introduced by Stephen Ross and Barry Mitnick in 1973 deals with solving problems (agency problems) that arise from an agency relationship. Agency theory is a concept used to explain the important relationships between principals and their relative agent. In the most basic sense, the principal is someone who heavily relies on an agent to execute specific financial decisions and transactions that can result in fluctuating outcomes. Because the principal relies so heavily on the agent to make the right decision, there may be an assortment of conflicts or disagreements. Agency theory dives into such relationships. In terms of business, the principal is considered to be a shareholder, while the agent is considered to be a company executive. Although it may not seem like it, shareholders and company executives are tightly connected. Each of their actions greatly affects the position of one another.

Empirical Review

Haddad, El-Ammari and Bouri (2021) examined the impacts of the audit committees’ quality on the financial performance of Islamic and conventional banks between 2010 and 2019 in Switzerland . The financial performance measures and audit committees' determinants of the conventional and Islamic banks concerned 112 banks of each type. The collected data covered four continents: America, Asia, Africa, and Europe. Impacts were compared by using the Generalized Least Squares analysis. The results showed that the audit committee reduced the profitability of two bank types. Moreover, it harmed the conventional banks' efficiency but reported an unclear effect within Islamic banks. It was noticed that the audit committee had a positive impact on the conventional banks' liquidity, while the same effect was apparently ambiguous for the Islamic banks' liquidity. For solvency, the audit committee positively influenced conventional banks while it affected that of Islamic banks.

Effendi, Gamal and Mahben-Jalil (2021) analyzed the effect of auditor objectivity, independence and competence on audit quality of public accounting firms in Batam, Indonesia. The study used quantitative methods with primary data through distributing questionnaires and using data processing with the help of the SPSS application. Data analysis was done using multiple linear regression. The population in the study was 44 KAP auditors with the research sample using saturated samples. The results of the study showed that the objectivity affects significant on audit quality, Independence has no effect on audit quality and Competence has no effect on audit quality.

Javeed, San-Ong, Latief, Muhamad and Ni-Soh (2021) used CEO power and ownership concentration as moderating factors to examine the connection between AC and firm performance. The study used the data of Pakistani manufacturing firms for the period 2008 to 2018 and applied the Ordinary Least Square (OLS) method, the Fixed Effect (FE) model, and the Generalized Method of Moments (GMM). To check the robustness of the results, the study used a Feasible Generalized Least Square (FGLS) model. The findings of the study contended that AC and firm performance have a positive association with each other. Moreover, the findings revealed that CEO power positively influenced firm performance.

Namakavarani, Daryaei, Askarany and Askary (2021) explored the relationship between audit committee characteristics and accounting information quality using panel data of 558 firms from the Tehran Stock Exchange (TSE) for 2011–2016. Ttwo proxies for audit committee characteristics were used: independence of audit committee and financial knowledge. Furthermore, three proxies were used for an internal information environment: earning announcement speed, the accuracy of earning forecasting and lack of financial restatements. The findings showed that there is a significant and positive relationship between the audit committee and financial information quality characteristics.

Carp and Istrate (2021) estimated the impact of auditors' characteristics on audit quality for the Romanian listed firms (943 observations for the 2007–2019 period), using as a proxy for the audit quality the level of discretionary accruals, measured following the Jones (1991) model, and the accruals quality, estimated through the Dechow and Dichey (2002) model. The dependent variables Results showed that the auditor's Big 4 membership contributes to an increase in discretionary accruals, decreasing the quality of the audit. The transition to IFRS did not have a significant influence on the quality of the audit.

V. Methodology

In order to establish the cause-effect relationship between Auditors' Independence and Audit Quality of Nigeria banking firms, *Ex-Post facto* research design was employed considering the utilization of historical data.

Fourteen (14) quoted deposit money banks in Nigeria as at 31st December 2020 constituted the sample size of this study. They are: Access Bank Plc; Eco Bank Plc; FCMB Bank Plc; Fidelity Bank Plc; First Bank Plc; Guaranty Trust Bank Plc; Jaiz Bank; Stanbic IBTC Plc; Sterling Bank Plc; Union Bank Plc; United Bank of Africa Plc; Wema Bank Plc; Zenith International Plc; Unity Bank Plc. Judgemental sampling was utilized to select a sample of thirteen (13) deposit money banks, which includes: Access Bank Plc; Eco Bank Plc; FCMB Bank Plc; Fidelity Bank Plc; First Bank Plc; Guaranty Trust Bank Plc; Stanbic IBTC Plc; Sterling Bank Plc; Union Bank Plc; United Bank of Africa Plc; Wema Bank Plc; Zenith International Plc; Unity Bank Plc.

This study made use of data from secondary sources through the sampled banks' annual reports and accounts. A total of thirteen (13) deposit money banks (DMBs) were studied from 2009-2020. Binary Probit Regression analysis was used because the dependent variables (Compliance to Auditing guideline) are binary variables which takes value 1 or 0.

Correlation analysis and Binary logit regression analysis was employed via E-Views 10.0 statistical software.

Operationalization/Measurement of Research Variables

Variable	Acronym	Measurement
Independent (Auditor's Independence)		
Joint Audit	JAD	0 and 1dichotomy. Code 1 if the financial statements are audited by two or more independent auditors; otherwise, JAD was coded 0
Non-Audit Services	NAS	Natural log of Consultancy fees
Auditor's Competence	AC	Timely audited account submission as reported in the auditors' report using 0 and 1 Binary values
Dependent Variable (Audit Quality)		
Compliance to Auditing Guideline	CAG	Code1 if the auditors' report as contained in the financial statements conformed Generally Accepted Auditing Standards, otherwise, we assign 0

Model Specification

In corroboration with the previous studies, this study adapted and modified the
model of Amahalu and Obi (2020) in determining the nexus between Auditors' Independence and Audit Quality of Deposit Money Banks in Nigeria.
This is shown below as thus:
Amahalu and Obi (2020): $AIC = \beta 0 + \beta_1 JAD + \beta_2 NAS + \mu$
The Modified Model used for the study is shown below as thus:
$CAG = \beta 0 + \beta_1 JAD + \beta_2 NAS + \beta_3 AC + \mu$

Where:

AIC = Assurance of Internal Control
JAD = Joint Audit
NAS = Non Audit Services
CAG = Compliance to Auditing Guideline
AC = Auditor's Competence

Test of Hypotheses

Binary Logit Regression Model was developed to test the linear relationship between the dependent and independent variables. It was operated using E-Views 10.0 statistical software as shown in the table 1:

Table 1: Binary Logit Regression analysis between JAD, NAS, AC and CAG

Dependent Variable: CAG
Method: ML - Binary Logit (Newton-Raphson / Marquardt steps)
Date: 08/21/21 Time: 13:18
Sample: 2009 2020
Included observations: 12
Convergence achieved after 10 iterations
Coefficient covariance computed using observed Hessian

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	10.00148	1.767562	5.658348	0.0002
JAD	0.710000	0.134648	5.273020	0.0004
NAS	-0.541521	0.142427	-3.802108	0.0035
AC	0.076189	0.013465	5.658348	0.0002

McFadden R-squared	0.774441	Mean dependent var	0.833333
S.D. dependent var	0.739249	S.E. of regression	0.354168
Akaike info criterion	1.140259	Sum squared resid	1.003480
Schwarz criterion	1.301895	Log likelihood	-2.841556

Hannan-Quinn criter.	1.080416	Deviance	5.683111
Restr. Deviance	10.81347	Restr. log likelihood	-5.406735
LR statistic	45.10358	Avg. log likelihood	-0.236796
Prob(LR statistic)	0.000000		
Obs with Dep=0	2	Total obs	12
Obs with Dep=1	10		

Source: E-Views 10.0 Regression Output, 2021

Interpretation of Regression Result

The results of the binary logit are presented in Table 1. The McFadden R-squared value of 0.774441 shows explanatory power of 77.44%. On the basis of the performance of the individual variables, it was discovered that the three explanatory variables appeared to be statistically significant with CAG. More specifically, the variable of Joint Audit was found to be statistically significant with a coefficient of; β_1= 0.710000 and a significant z-statistic of -5.273020 with a reported P-value of 0.0004. NAS has a significant but negative relationship with CAG as delineated by the coefficient of β_2 = -0.541521, z-statistic of -3.802108 and p-value of 0.0035. The variable of Auditor's Competence was found to be statistically significant and positive with a robust coefficient of β_3= 0.076189 and a significant z-statistic of 5.658348.

Since the Prob(LR statistic) of 0.000000 is less than the critical value of 0.05, then, it is upheld that there is a significant relationship between Auditor's independence and Audit Quality of quoted Deposit Money Banks in Nigeria at 5% level of significance, thus, H_1 is preferred over Ho.

VI. Conclusion

The study from the statistical analysis concludes that Joint Audit and Auditors Competence have a significant and positive relationship with on Compliance to Auditing guideline, while, on the other hand, Non-Audit Services have a significant but negative relationship with Compliance to Auditing guideline of Quoted listed Deposit Money Bank in Nigeria at 5% level of significance.

Recommendations

Based on findings of the study, the following recommendations were suggested:

1. Deposit Money Banks should continuously adopt the joint audit approach, since joint audit significantly improves the quality of audit.
2. External auditing firms should be prohibited from providing certain non-auditing services especially those linking them directly to financial information and design, internal control, tax consultancy etc alongside auditing functions. There should be a law to this effect in Nigeria.
3. Based on the positive relationship between Auditors' Competence and Compliance to Auditing Guideline, then, there is need for auditors to regularly receive training courses on contemporary auditing guidelines/standards that would prove beneficial to their auditing practices.

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