

# **IMPACT OF MANDATORY AUDITOR ROTATION ON QUALITY OF AUDIT REPORT: A STUDY OF SELECTED AUDIT FIRM IN NIGERIA**

BY

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## **CERTIFICATION**

This is to certify that this project work has been written by **ADEBIYI TAOFIKAT AYOMIDE** with Matriculation Number **ND/23/ACC/PT/0221** and has been read and approved as meeting part of requirement for the Award of National Diploma (ND) in the Department of Accountancy, Institute of Finance and Management Studies (IFMS), Kwara State Polytechnic, Ilorin, Kwara State

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## **DEDICATION**

This project work is dedicated to **Almighty Allah**, the omnipotent, omnipresent, and omniscience for His blessing, protection and guidance over me.

## ACKNOWLEDGEMENT

I offer my deepest gratitude to **Almighty Allah** who has been my rock and source of inspiration throughout this project".

My appreciation goes to my supervisor (**Mr. AKANBI A.K**) for his guidance and support through my project. May God almighty bless him and his family. Amen.

I must not fail to appreciate my parent (**Mr. & Mrs. ADEBIYI**) May God let you live long to reap the fruit of your labour. Amen

My appreciation also goes to all my family and friends, I pray God will continue to bless you all. Amen

Once again I am grateful to God for his mercies, loves and care for the greatest opportunity he gave me to accomplish the task of being a graduate, ALHAMDULILLAH.

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## **CHAPTER ONE**

### **INTRODUCTION**

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

Mandatory audit rotation is a regulatory requirement that requires companies to change their external audit firm after a certain period of time, typically ranging from 5 to 10 years (IFAC, 2017). It is in this light that the Nigerian Code of Corporate Governance (NCCG) 2018 specified that all Private companies, with the exclusion of private companies with a staff strength of 8 or less and files, return to Federal Inland Revenue Service (FIRS) and Corporate Affairs Commission (CAC) and the Public companies listed should not exceed a tenure of 10years for audit firms (section 20.1) and can be reengaged after 7 years (section 20.2). The primary rationale behind this policy is to enhance auditor independence and improve audit quality by reducing the risk of over-familiarity between the auditor and the client (OECD, 2022). The assumption is that regular changes in audit firms would prevent auditors from developing too close a relationship with the client, which could compromise their professional skepticism and judgment. However, the impact of mandatory audit firm rotation on audit quality and costs is a subject of ongoing debate and research. While the policy may enhance auditor independence, it can also disrupt the auditor-client relationship and lead to a loss of client-specific knowledge, potentially compromising audit quality. Additionally, the costs associated with mandatory rotation, such as the time and resources required for the transition to a new audit firm, may outweigh the potential benefits. For instance, Chen et al. (2020) found that MAFR led to improved audit quality and higher audit fees evidenced by a reduction in earnings management and increased costs associated with the on boarding of a new audit firm. On the other hand, Cameran et al. (2016) who reviewed existing literature on Mandatory audit firm rotation found that the impact of MAFR on audit quality is mixed, with some studies showing improvements and others finding no significant change. With mixed opinions from previous studies, this study aimed to investigate the impact of mandatory audit firm rotation on both audit quality and audit costs, providing a comprehensive analysis of the trade-offs involved.

By examining the relationships between audit quality, audit costs, and mandatory rotation, the study sheds light on the implications of this policy for companies, auditors, and regulators. Findings from this study would contribute to the ongoing debate surrounding the effectiveness of MAFR as a regulatory tool to enhance auditor independence and audit quality. The findings will provide valuable insights for policymakers, regulators, and companies considering the implementation or continuation of MAFR requirements. Additionally, the study will shed light on the potential trade-offs between the benefits of MAFR and the associated costs, which is an important consideration for stakeholders.

Corporate failures and scandals have raised questions as to the ability of auditors to objectively give an opinion on the books and records prepared by management (Omoye & Aronman, 2017). This question is particularly relevant given that some of the auditors were apparently not objective enough to have been able to present a check on most of the failed companies.

According to Hoyle (2019), long audit tenure threatens auditors' independence. Although it is expected that auditors will act in a way and manner that will help to reduce any information asymmetry present in the link between shareholders and management, the long tenure was seen to have threatened this objectivity, hence the need to rotate auditors arose to increase audit quality. Several pieces of literature on the linkage between audit rotation and audit quality reflect mixed results. Therefore, there is the need to assess the effect of audit rotation on audit quality and cost in the light of the pronouncement of NCCG (2018) to know the level of compliance and its impact, to bridge the existing gap in knowledge. Most studies conducted on the effect of audit rotation on audit quality (Kim et al., 2015; Imeokparia, 2014; Okaro et al., 2013) have either shown that there is a significant effect or not and either to the positive or negative direction.

## **1.2 STATEMENT OF THE PROBLEM**

Corporate failures and scandals have raised questions as to the ability of auditors to objectively give an opinion on the books and records prepared by management. Some of the auditors were apparently not objective enough to have been able to present a check on most of the failed companies. Long audit tenure threatens auditors' independence. Although it is expected that



auditors will act in a way and manner that will help to reduce any information asymmetry present in the link between shareholders and management, the long tenure was seen to have threatened this objectivity, hence the need to rotate auditors arose to increase audit quality. Therefore, there is the need to assess the effect of audit rotation on audit quality and cost in the light of the pronouncement to know the level of compliance and its impact, to bridge the existing gap in knowledge.

### **1.3 RESEARCH QUESTIONS**

- i. Does mandatory rotation of external auditors affect the quality of audit firm in Nigeria?
- ii. What is the impact of mandatory auditor rotation on audit firm in Nigeria?
- iii. What factors influence the relationship between mandatory auditor rotation and audit firm in Nigeria?

### **1.4 OBJECTIVES OF THE STUDY**

- i. To find out whether mandatory rotation of external auditors affect the quality of audit firm in Nigeria
- ii. To examine the impact of mandatory auditor rotation on audit firm in Nigeria?
- iii. To find out the factors that influence the relationship between mandatory auditor rotation and audit firm in Nigeria?

### **1.5 RESEARCH HYPOTHESES**

- i. Mandatory rotation of external auditors does not affect the quality of audit firm in Nigeria?
- ii. There is no any impact of mandatory auditor rotation on audit firm in Nigeria?
- iii. There is no relationship between mandatory auditor rotation and audit firm in Nigeria?

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

The spotlight of this research work is to observe the impact of mandatory rotation on quality of audit report in selected audit firm in Nigeria.

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

This study is significant because the researcher at the conclusions of this study, will be enabled to assimilate and expand his knowledge as regarding the study topic: mandatory auditor rotation on quality of audit report. The entire selected audit firm and the management of the

case study will find the study important and useful in relation to the formulation of appropriate policies and procedures on resolving audit report in the organization.

To other researcher, this study will also serves as a reference point. It can also be used as the basis of further research on mandatory auditor firm rotation.

## **1.8 LIMITATION OF THE STUDY**

- a. **Time constraint:** a lot of a sacrifice has to be made so that the researchers could have enough time for this study. The time lag is a serious problem faced by the researcher, that is the time space between the period it was submitted which was not sufficient enough as the researcher has to combine academic activities with the research work which was not all that easy. Additionally, the time constraint made quite challenging following up on respondents to collect questionnaire feedback for the necessary required data for analysis as well as meeting with supervisor for consultation.
- b. **Financial constraint:** the researcher encountered some financial difficulties as I could not get enough adequate funds for some activities which have great impact on the success of the researcher as well.
- c. **Availability of Data:** the statistical data to be collected were scarcely recorded in almost all department in the organization and not properly kept, not updated and this made it difficult for the researcher to get sufficient and adequate information needed..

## **1.9 DEFINITION OF TERMS**

- **Auditor:** An auditor is a professional, often with accounting credentials, who examines and verifies the accuracy of financial records and reports. They ensure that companies comply with relevant laws and regulations, and that financial statements are accurate.
- **Quality:** the standard of something as measured against other things of a similar kind; the degree of excellence of something.
- **Report:** To give a spoken or written account of something that one has observed, heard, done, or investigated.

- **Firm:** A firm is an organization which sells or produces something or which provides a service which people pay for. The firm's employees were expecting large bonuses. ...a firm of heating engineers.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 PREAMBLE**

This chapter reviews relevant literature relating to the study variables and covered the theories of inflation, review of empirical studies related to the topic, the concept of inflation and the concept of loan repayment. It also provides a conclusion identifying the gap of the study.

#### **2.2 CONCEPTUAL FRAMEWORK**

##### **2.2.1 CONCEPT OF MANDATORY AUDIT ROTATION**

Mandatory rotation of audit firms is statutory prescription of the length of time an audit firm stays and renders professional services to its clients. It requires audit firms to be rotated after a specific number of years despite the efficiency, quality, independence, trust and the willingness of the shareholders to keep the audit firm (Onwuchekwa, Erah & Izedonmi, 2016 ). Zawawi (2017) posits that the concept of mandatory auditor rotation came in as a result of highly publicized corporate failures that resulted in litigations. Asein (2017) explains that rotation of external auditors was conceived to be a solution to possible familiarity threat between personnel of the audit firm and the client.

##### **2.2.1.1 Mandatory Audit Rotation and audit quality**

Concerns over the relationship between auditor tenure and audit quality became more intense after the Enron saga. The quality of audit can be defined, in general terms, as the probability that an auditor will both discover and truthfully report material errors, misrepresentations or omissions detected in a client's accounting system (De Angelo, 2019). This probability depends upon the broad concept of an auditor's professional conduct, which includes factors such as objectivity, due professional care and conflict of interest. The quality of audit work can be evaluated from several points of view; Performance determinants which relate to the ability of auditors, intended both as knowledge and experience; Professional conduct, a general concept including ethical constraints and judgement belongs to this category as well; Economic incentives: as the audit firm's performance is affected by economic considerations, these

incentives have to be evaluated when both detection and reporting of matters are analyzed; Audit market structure: the auditor's performance is influenced by the state of professional ethics, the visibility of the profession's enforcement actions and interaction with professional peer groups. Copley & Doucet (2015) find that a periodic rotation of auditors may improve the audit quality. The work investigated the association between the quality of audit services and auditor tenure, along with the quality and fixed fees relation.

The first relationship evaluates the usefulness of mandatory rotation. A regression statistical model was used to test the relationship between the dependent variable "substandard audit quality" and other independent variables, of which the most important is "tenure". The dependent variable indicates whether the audit is of unacceptable quality or not. The model focuses on the auditor's incentive to provide a quality service. The analysis was performed on a sample of United State companies. These are entities that receive federal funds, and in that way the law requires them to receive an independent audit. The empirical results show a positive sign for the estimated parameter of "tenure". This means that the likelihood of receiving a substandard quality audit increases with the length of the auditor – client relationship. This means that the longer the period of engagement, the higher the risk that the quality of audit services decreases. Chi, W., H. Huang, Y. Liao, and H. Xie (2019) find some evidence that audit quality of companies subject to mandatory audit-partner rotation in 2004 is higher than audit quality of companies not subject to rotation in 2004. The study examine the effectiveness of mandatory audit-partner rotation in promoting audit quality using audit data in Taiwan where a five-year audit-partner rotation became de facto mandatory in 2004. Using, both absolute and signed abnormal accruals and abnormal working capital accruals as proxies for audit quality. The investors perceive mandatory audit-partner rotation as enhancing audit quality, suggesting that mandatory audit-partner rotation enhances auditor independence in appearance. On the contrary, Chung (2004) observes that audit quality appears to improve when the duration of the audit – client relationship is truncated. The study examines the impact of limited auditor tenure on earnings and audit quality. Proxy variables of discretionary accruals were used as dependent variables in a cross-sectional modified model.

### **2.2.2 AUDIT QUALITY**

According to DeAngelo (2017), she defines audit quality as “the assessed joint probability that a given auditor will both (a) uncover a fraud in the client’s accounting system and (b) report the fraud.” When stated differently, the quality of an audit is a function of (1) the ability of the auditor to discover material omissions or misstatement in the client’s financial statements, (2) the uncertainty that the auditor will disclose material errors. The diversity in the level of the discovery aspect represents the diversity in the level of competency of the auditor, while the diversity in the incentives to report represents the level of the auditor’s independence. An improvement in either competence or independence would lead to an improvement in audit quality, while the reverse will lead to low audit quality. Audit quality is the uncertainty that an auditor will discover any material errors, misrepresentation and omissions detected in a client’s accounting system and truthfully report same (De Angelo 2020).

According to Hay and Knechel (2015), they said auditing could be placed as a type of credence good and consequently, auditors add credibility to corporate financial reports by saying an opinion about the true and fair representation but only in that the users of financial statements will perceive that the opinion is valuable.

Audit quality is the soul of audit profession. It is related to the vital interest of the public. Audit quality has been considered a multifaceted concept by the International Auditing and Assurance Standard Board (IAASB). Users, auditors, regulators, investors (shareholders), and other stakeholders in the financial reporting process may have divergent views as to what constitute audit quality which will influence the type of indicators one might use to assess audit quality. The auditor conducting the audit may define high audit quality as satisfactorily completing all tasks that is required by the firm’s audit procedures. The auditor may decide to evaluate high audit quality as one for which the work can be defended against any challenges in an inspection by a court of law. Regulators on their own stand point may view audit quality as one that is in compliance with professional standard. The public may consider high audit quality to be one that avoids economic problems for a company or the market (Enofe, Mgbame, Adeyemi, Obehioye & Ehi-Ohio, 2016)

### **2.2.3 MANDATORY AUDITOR ROTATION**

Olowookere and Adebisi (2013) Mandatory auditor rotation prevents the audit firm from developing a close relationship with the client and also provides an incentives for the audit firm to carry out its work to a high standard because they are aware that the quality of their work will be observable to some extent when a new firm of auditors take over the audit. Dopuch, King, and Schwartz (2021) said that mandatory auditor rotation leads to less biasing audit reports.

Lu and Sivaramakrishnan (2019) said that mandatory auditor rotation reduces overstatements and increases understatements insinuating increased reporting conservatism. Catanach and Walker (2019) they mentioned that the said rotation would increase the quality of services provided by the auditor because the audit firm would attempt to differentiate themselves from other firms through the quality of their work. When the same client (management) is audited too frequently by a particular auditor, the auditor tends to be too familiar with the client. This over familiarity between the auditor and client is likely to restrict the value added service of the auditor. For example, the audit programme may become stale as the auditor begins to anticipate the condition of the client's system. As such, the quality of the audit work becomes compromised. The beauty of mandatory auditor rotation is that it will limit the formulation of audit –client relationships that can most times lead to compromising independence.

### **2.2.4 MANDATORY AUDIT FIRM ROTATION**

Mandatory firm rotation connotes that there should be an imposition of a limit on the number of years an audit firm is supposed to be an auditor to a particular client (Sayyar et al., 2015; Okaro et al., 2013). Audit firm rotation is the practice of mandatory or voluntary changes in audit firm after a specified period in order to keep afresh a set of eyes on the books and records of the company (Siregar et al., 2016). The National code of corporate governance (2018) has made it mandatory for all sectors to rotate their audit firm on a 10 years basis with effect from 2018 and that any firm that has stayed up to 10 years should be rotated. The rotation of firm

was first introduced in 2006 for Banks only to rotate their external auditors on a 10 years basis and insurance companies on a 5years basis (Okaro et al., 2013). The study of Imeokparia (2015) documented that shareholders perceive long audit tenure as a threat to the objectivity of the auditor, hence firm rotation will drive home audit quality and for this to be achieved there should be a mandatory rotation of audit firms.

## **2.3 THEORETICAL REVIEW**

### **2.3.1 THE ROLE OF AUDITORS**

Audits are conducted with the purpose of examining the financial statements prepared by management in an organisation and to ensure that they are presented in accordance with applicable financial reporting standards, where the main reason is to enhance the level of trust that the market has on financial reports (IAASB, 2019). When conducting an audit, the main objective of the auditor is to gather reasonable assurance about whether the financial statements give a true and fair view of the entity and to determine if they are free from substantive defects, regardless if they are due to fraud or error (Ibid).

### **2.3.2 AUDIT QUALITY**

Audit quality has no fundamental or single definition (FRC, 2017). However, an often-used definition comes from DeAngelo (2016) where audit quality is divided into two components. By measuring “the ex ante value of an audit”, the definition of audit quality depends on an auditor’s ability to (1) ‘discover errors or breaches in the accounting system’ and (2) ‘withstand client pressures to disclose selectively in the event a breach is discovered’ (DeAngelo, 2018). With the definition of audit quality (DeAngelo, 2018), one can conclude that an auditor’s ability to discover a breach depends on various factors. Differences in knowledge, skills, expertise, experience, etc. will affect the performance of high quality auditing by an auditor or audit team. Also, different audit procedures, time and effort spent will affect the ability to discover a breach. The level of withstanding pressure from the client will show the willingness to report a breach, which is affected by independence, objectivity and scepticism. By this definition, it is shown that the two subjects are closely related. Lack in auditor independence will reduce the likelihood to report any irregularities, thus harming audit quality.



### **2.3.2 AUDITOR COMPETENCE**

An important and essential part of auditing is auditor competence which is described as the professional knowledge, professional skills, professional values, ethics and attitudes the auditor possesses when performing audit assignments (IFAC, 2005). Auditors need to be provided with a framework for acting in an ethical manner and exercising professional judgement that is in the best interests of both society and the profession (Ibid). A broad understanding of the core business of the entity that the auditor is reviewing is also important for auditor competence (Ibid). Also, a long-term relationship is important for auditor competence since auditors gain confidence in assessing the honesty or dishonesty of the client's claims since they are able to notice psychological behaviour or changes (IFAC, 2015). Company-specific knowledge is something that Solomon, Shields and Whittington (1999) examine. They claim that industry-specialist auditors have better non-error knowledge. The specialised auditors have better knowledge than non-specialised auditors because they have greater experience in the industry which allows them to do more accurate assessments in the audit, thus being able to provide better audit quality. Biggs, Selfridge and Krupka (2019) highlight that knowledge and ability to reason about specific client events play an important role for auditor expertise. They conclude that more experienced auditors have better knowledge about their clients' industry and operations, and that such client knowledge is crucial for audit judgement.

### **2.3.3 AUDITOR INDEPENDENCE**

Auditor independence can be seen as the most essential factor in ensuring audit quality and reliable financial statements (EC, 2015). Traditionally, auditor independence has been complex to define due to disagreements surrounding its meaning (Antle, 2018). DeAngelo (2018) defines the level of auditor independence as the probability that an auditor will report a breach in the accounting system, given that it has been discovered. Nowadays, IFAC (2016) requires an auditor to be independent towards its client both in fact and in appearance.

## **2.4 EMPIRICAL LITERATURE**

Ebimobowei and Oyadonghan (2016), auditors may be engaged in a long term audit–client relationship and there may be different incentives for this. Such long term professional affiliation may signal skepticism with regards to the perception of the auditor’s objectivity, independence and audit quality. The findings of the study show that there is a statistical significant relationship between mandatory rotation of auditors and the quality of audit reports. The study concludes that a policy favoring mandatory rotation of auditors could have positive effects on the quality of audit reports as it would allow for fresh approach and restore public confidence in the audit function.

According to Johnson, Khurana and Reynolds(2022), as the auditor-client relationship lengthens, there is the tendency that auditors may develop a “learned confidence” in the client which may result in the auditor not performing religiously, the required testing of financial reports. This learned confidence results in the auditor making assumptions about outcomes and using less rigorous audit procedures or static audit programs. Potentially, a loop hole for a decline in audit quality has been created.

Adeniyi and Mieseigha (2017) examine the relationship between the tenure of auditor and audit quality in Nigeria. Findings reveal that there is a negative relationship between auditor tenure and audit quality though the variable was not significant. Carcello and Nagy, (2015) also considered the relationship between audit quality and mandatory rotation of auditor’s tenure which is investigated from the point of viewof fraudulent financial reporting. A logistic regression model was used and the results reveal a significant positive relationship between short auditor tenure and audit quality.

Mgbame, Eragbhe and Osazuwa (2016) provide an evidence on the existence or otherwise of a relationship between the tenure of auditor and audit quality in Nigeria. Findings reveal that there is a negative relationship between auditor tenure and audit quality though the variable was not significant. The other explanatory variables (ROA, Board Independence, and Director Ownership and Board size) considered alongside auditor tenure were found to be inversely related to audit quality aside from Returns on Assets which exhibited a positive effect.

Onwuchekwa, Erah and Izedonmi (2018), examines the relationship between mandatory audit rotation and audit quality. The data used were collected through the distribution of questionnaires to investors, lecturers, consultants, accountants and auditors in southern Nigeria. The data was analyzed using percentage analysis while the specified model was estimated using binary logistic regression technique through computer software Eview 7. One hypothesis was stated and tested. The binary logistic ordered regression shows that there exists a negative relationship between Mandatory Audit Rotation (MAR) and audit quality (AUDQ). Myers, Myers and Omer (2019) using proxy variables such as discretionary accruals and current accruals, investigate the relationship between audit tenure and audit quality. The univariate results show that when auditor tenure is longer, the negative value of accrual measures was observed to be minimal. Furthermore, the study also employed multivariate analysis in order to examine if the discovered relationship between tenure and accrual is also influenced by other factors. The relationship between auditor tenure and accrual measures was also observed to be consistent in multivariate analysis as in the univariate analysis. On the other hand, the study found that extended auditor tenure had a beneficial effect on the dispersion of accruals. The implication is that there is the tendency for auditors to place greater constraints on both income increasing and income decreasing accruals as the audit client relation lengthens. These results suggest that audit quality does not appear to deteriorate with tenure. In the light of the positions of various studies as reviewed above, we can argue that the effects of auditor rotation on audit quality are controversial.

Appah & Oyadonghan (2019) examined the role of mandatory rotation of auditors on audit quality, cost and independence in South-South Nigeria. The study made use of both primary and secondary data. Primary data were generated from randomly administered questionnaires to 172 respondents drawn from auditors and users who have substantial knowledge of accounting and auditing and were analysed using Spearman's rank order correlation coefficient. The findings of the study showed that there was statistical significant relationship between mandatory rotation of auditors and the quality of audit reports, independence of auditors and the cost of audit. The study concluded that mandatory rotation of auditors

improves the quality of services, creates an effective peer review, allow fresh approach, reduce failure, restore investor and public confidence and independence. Thus, the rotation may lead to increase in the cost of audit services.

Onwuchekwa et al. (2015) sought to determine the relationship between mandatory audit rotation and audit quality. The data used were collected through the distribution of questionnaires to investors, lecturers, consultants, accountants and auditors in southern Nigeria. The data was analyzed using percentage analysis while the specified model was estimated using binary logistic regression technique through computer software Eviews 7. One hypothesis was stated and tested. The binary logistic ordered regression showed that there existed a negative relationship between Mandatory Audit Rotation (MAT) and audit quality (AUDQ).

Lawrence (2014) sought to determine if the rotation of audit firms would increase auditor's independence and audit quality; whether long audit tenure has any effect on auditor's independence and audit quality as well as if the start-up cost and risk of audit failure would increase provided there is rotation of audit firms. In this research three (3) hypotheses were formulated and tested. Primary data was obtained through the administration of questionnaires to a simple randomly selected set of 120 auditors from the Big 4 audit firms (Price-Waterhouse and coopers, KPMG, Deloitte, and Ernst & Young). In testing the hypotheses regression analysis was used. The findings from this research indicated that mandatory rotation of audit firms had a positive relationship with auditor's independence and audit quality so likewise does long audit tenure. It also showed that audit firm rotation significantly affected audit start-up cost and the risk of audit failure.

Umasabor and Okafor (2020) investigated the relationship between audit firm, audit partner rotation and audit quality in South-South Nigeria using the cross-sectional survey. The study used primary data, whereby a total of 390 copies of questionnaire were distributed to auditors, accountants and accounting lecturers (university) in the South-South states of Nigeria. A sample of two hundred and eight respondents was analyzed using descriptive statistics, correlation analysis and least squares regression analysis. The findings revealed that firm

rotation had a significant positive relationship with audit quality. Partner rotation had a positive but insignificant relationship with audit quality. The study, therefore, recommended that companies should rotate their audit firm on a 10years basis and rotates their audit lead partners on a 5years basis by strictly complying with the Nigerian Code of Corporate Governance Section 20.1 and Section 20.4 respectively issued in 2018 by the Financial Reporting Council of Nigeria (FRCN) this would assure users of the financial report since auditor's independence is intact and further boost their confidence.

Olubukola and Kudzanai (2021) examined MAFR to AQ based on stakeholder perceptions. Theoretical insights were established to explore on existing evidence. A descriptive survey design was carried out with a triangulation approach. Interviews were conducted while at the same time questionnaires were administered to accountants, auditors, investors, and management. A population of 71 listed and audit firms were chosen, of which 29 firms were selected using simple random, systematic and purposive sampling. Correlation and regression analysis were used to examine and interpret the quantitative data. The study's findings indicated that MAFR had a positive relationship with AQ from the linear logistic regression computed; therefore, the null hypothesis is rejected. Meanwhile, having firm audit rotation is compulsory for all listed firms, which increases competition and improves independence and new idea development which ultimately results in improved audit quality. The study, therefore, concluded that MAFR was essential.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 INTRODUCTION**

This chapter highlights the procedures used in conducting the study. Pertinent issues discussed in this section include the research design, population of the study, sample size and sampling techniques, sources and methods of data collection, instrument of data collection and techniques for data analysis.

#### **3.2 RESEARCH DESIGN**

A research design is the basic plan which guide the data collection and analysis phase of the research project. It is structuring of investigation aimed at identifying variables and their relationships to one another. It is basically a preconceived notion of what the information, the investigation needs to generate to complete the study, why it is needed, how it is needed to be secured and how it is to be referred and related to the statement of the problem.

In management science, the research methods employed include historical, empirical, case study and survey method. Survey method was therefore employed for this study.

#### **3.3 POPULATION OF THE STUDY**

A population is an aggregate of similar things, that is the total head count of the element involved in the programme affected. Cherisnall (2018) described population as any group of people or objects which are similar in more ways and which forms the subject of the study in a particular survey.

In this research work, the population is involves the selected audit firm in Nigeria, Under investigation formed, the population of the study since it would be impossible for the researcher to study and investigate all the audit firm responsible for the information sort for. The entire staff the selected audit firm is 30 staff. The sample size for this study consist of 28 staff selected audit firm, this is arrived at according to Yaro Yammane formula.

Sample size of the population is 30 and the researcher issue the same number of the questionnaire to the staff of the firm to answer. To determine the minimum number of response from each of the section of work in the population Bowley's proportional method or formula was applied.

### 3.4 SAMPLE/SAMPLING TECHNIQUES

Sampling of the opinion has been drawn using simple random sampling method. The population is 30 respondents. Random sampling is used because it is the only method that gives the respondents equal chance of being selected and it is an unbiased techniques. Therefore, to determine the sample size for the study, Yaro Yamane's formula will be applied.

$$n = \frac{N}{1 + N(e)^2} \quad N = 30$$

Where N = population

n = sample size

e = error

$$\frac{n = 30}{1 + 30(5\%)^2}$$

The size of the sample is 100 staff from selected audit firm in Ilorin. The larger the sample size, the better generalization on the population from which the sample was selected. For proper sampling, the population was stratified into junior, senior and management staff as shown below.

Stratification	Population size	Sample size	Percentage of sample size
Junior staff	60	10	45%
Senior staff	35	10	30%
Management staff	25	8	25%
Total	30	28	100%

Source: Field survey, 2025.

### **3.5 SOURCES AND METHOD OF DATA COLLECTION**

The two basic sources of data collection used include primary and secondary data collection

- 1. PRIMARY DATA COLLECTION:** This refers to data collected fresh in relation to this research work. They could also refer to as first hand raw information. These data are obtained through questionnaire administration. The use of the accessibility of the designed respondent. Also as long as they are properly designed, respondents identifies kept confidential, reliable responses are obtained.
- 2. SECONDARY DATA COLLECTION:** These are existing reformation which is useful for the purpose for the specific surveys, it includes readily available data which have been collected and used for other purpose. These sources include magazines, journal, textbooks, newspaper, abstract and annual report etc.

Therefore in course of paper conduct of this research work, important and relevant information will be obtained from the members of staff and management of selected audit firm in Ilorin. Professional journal will also be used in this regard. Also literature relevant to this thesis of high value in the theoretical frame work. Discussion with colleagues and member of the selected audit firm in Ilorin will also serve as part of the sources.

### **3.6 RESEARCH INSTRUMENT**

The primary data was employed in gathering information from staff of all cadres. Interviews were also conducted with other stakeholders, including customers of the company. The questionnaire consists of two sections. Section A elicits demographic information like gender, working experience, while Section B contained structured items relating to the research questions that necessitated this research.

### **3.7 TECHNIQUES FOR DATA ANALYSIS**

Data collected for the testing of the hypothesis were analyzed using simple statistical tools like mean, standard deviation, tables and percentages.



The standard hypotheses of the study were tested with the use of  $\chi^2$  = chi square test statistics which is expressed as  $\chi^2 = \sum (O - E)^2$  with the degree of freedom of  $v = k-1$

Here,  $O$  = observed frequency

$E$  = Expected frequency

The maximum response rating for each question is 5% and this gives an expected mean score of 2.5.

In analyzing the responses to the questions, the decision rule applied is that, if calculated mean is greater than expected mean of 2.5, we accept the statement, otherwise, we reject it. With respect to the hypothesis testing, if the calculated value of  $\chi^2$  is greater than the table value, we reject the null hypothesis and accept the alternative.

## CHAPTER FOUR

### ANALYSIS AND DISCUSSION

#### 4.1 INTRODUCTION

This chapter deals with the actual making of decision based on the computation and analytical process under which information collected from questionnaire will be made fifty-two questionnaire were sent out but thirty was returned, the information gathered from the analysis in section A below give insight into the cadre of the respondents. Therefore, the analysis of the study was based on the 30 questionnaire returned.

#### 4.2 RESPONDENTS CHARACTERISTICS AND CLASSIFICATION

Having enumerated the questionnaire in previous chapters they will now be analyzed so that conclusions would be reached as to whether to accept or reject the ideals put across based on the response obtained. In doing this, the questions will be picked on after the other.

##### SECTION A - BIO DATA OF RESPONDENTS

TABLE 4:2:1: Gender of respondent

1	Gender group	Number of Respondents	Percentage (%)
A	Male	18	60
B	Female	12	40
	Total	30	100

Sources: Researcher's Survey, 2025

From the table 4:2:1 above, it shows the sex group of the respondents. However the male respondent are 18 about 60% of the total respondent and female respondent are 12 about 40% of the total respondent. Therefore the male respondents are more than the female respondent.

TABLE 4:2:2 Marital status of respondent

2	Marital Status	Number of Respondents	Percentage (%)
A	Single	12	40
B	Married	16	53
C	Divorced	2	7
	Total	30	100

Sources: Researcher's Survey, 2025

The table 4:2:2 above shows the marital status of the respondents. However the single one are 12 about 40% of the respondent, the married are 16 about 53% and the divorced ones are 2 about 7% of the respondents.

TABLE: 4:2:3: Length of work experience

3	Length of work experience	Number of Respondents	Percentage (%)
A	Between 1-10 years	7	27
B	Between 11-20 years	6	57
C	Between 21-35 years	17	17
	Total	30	100

Sources: Researcher's Survey, 2025

The table 4:2:3 above shows the length of work experience of the respondents. However, between 1-10 years are 7 about 27% of the respondent, between 11-20 years are 6 about 57% of the respondent and between 21-35 years are 17 about 17% of the respondents.

TABLE 4:2:4: Educational qualification

4	Qualification	Number of Respondents	Percentage (%)
A	WSC/SSCE/NCE	7	24
B	OND/A' LEVEL	17	56
C	BSC/HND	6	20
	Total	30	100

Sources: Researcher's Survey, 2025

Table 4:2:4 above shows the qualification of the respondents. However, WSC/SSCE/NCE are 7 about 24% of the respondent, OND/A' LEVEL are 17 about 56% of the respondent and BSC/HND are 6 about 20% of the respondents.

TABLE 4:2:5: Department specification of respondent

5	Department specification	Number of Respondents	Percentage (%)
A	Account/Finance	13	43
B	Personnel	11	20

C	Administrative	6	37
	Total	30	100

Sources: Researcher's Survey, 2025

The table 4:2:5 above shows the department specification of the respondents. However, the Account/Finance are 13 about 43% of the respondents, personnel are 11 about 20% of the respondents and administrative are 6 about 37% of the respondents.

### 4.3 PRESENTATION AND ANALYSIS OF DATA ACCORDING TO RESEARCH QUESTION

#### SECTION B: TABLE 4:2:6

**TABLE 4.2: DOES AUDITOR ROTATION HAS POSITIVE EFFECT IN YOUR COMPANY?**

CHOICE	NO OF RESPONDENTS	PERCENTAGE (%)
Strongly Agree	21	75
Agree	7	25
Strongly Disagree	00	00.0
Disagree	00	00.0
TOTAL	28	100

Source: Researcher's Survey, 2025

From the table above, 21 respondents representing 75% of the total respondents strongly agreed that auditor rotation has positive effect in their company, 7 respondents representing 25% also agreed to the question. No respondent Disagreed to the posed question and No respondent strongly disagreed that auditor rotation has positive effect in their company.

**TABLE 4.3: DOES AUDITOR ROTATION INCREASE THE PROFITABILITY AND PRODUCTIVITY IN YOUR COMPANY?**

CHOICE	NO. OF RESPONDENTS	PERCENTAGE (%)
Strongly Agree	14	50.0
Agree	10	47.8
Strongly Disagree	0	00.0
Disagree	4	2.2
TOTAL	28	100

Source: Researcher's Survey, 2025

From the table above, 14 respondents representing 50% of the total respondents strongly agreed that auditor rotation increase the profitability and productivity in their company, 10 respondents representing 47.8% also agreed to the question. 0 respondents representing 00.0% of the total respondents Strongly Disagreed while 4 respondents representing 2.2% also Disagreed. The researcher therefore believes that auditor rotation increase the profitability and productivity in their company.

**TABLE 4.4: DOES AUDITOR ROTATION INFLUENCE THE OPERATIONAL EFFICIENCY IN YOUR COMPANY?**

CHOICE	NO. OF RESPONDENTS	PERCENTAGE (%)
Strongly Agree	20	71.6
Agree	8	28.64
Strongly Disagree	0	00.0
Disagree	0	00.0
TOTAL	28	100

**Source: Researcher's Survey, 2025**

From the table above, 20 respondents representing 71.6% of the total respondents strongly agreed that auditor rotation influence the operational efficiency in their company, 8 respondents representing 28.64% also agreed to the question. 0 respondents representing 00.0% of the total respondents Strongly Disagreed while 0 respondents representing 0.00% also Disagreed that auditor rotation influence the operational efficiency in their company.

**TABLE 4.5: ARE THERE ANY SIGNIFICANT DIFFERERECE BETWEEN THE AUDITOR ROTATION AND AUDIT REPORT IN YOUR COMPANY?**

CHOICE	NO OF RESPONDENTS	PERCENTAGE (%)
Strongly Agree	21	75
Agree	7	25
Strongly Disagree	00	00.0
Disagree	00	00.0
TOTAL	28	100

**Source: Researcher's Survey, 2025**

From the table above, 21 respondents representing 75% of the total respondents strongly agreed that there is significant difference between the money invested and revenue in their company, 7 respondents representing 25% also agreed to the question. No respondent Disagreed to the posed question and No respondent strongly disagreed that there is significant difference between the auditor rotation and audit report in your company

**TABLE 4.6: DOES AUDITOR ROTATION BRING DOWN INTEREST RATE AND MAKE LONG TERM FUND AVAILABLE IN YOUR COMPANY?**

CHOICE	NO. OF RESPONDENTS	PERCENTAGE (%)
Strongly Agree	14	50.0
Agree	10	47.8
Strongly Disagree	0	00.0
Disagree	4	2.2
TOTAL	28	100

**Source: Researcher's Survey, 2025**

From the table above, 14 respondents representing 50% of the total respondents strongly agreed that auditor rotation bring down interest rate and make long term fund available in their company, 10 respondents representing 47.8% also agreed to the question. 0 respondents representing 00.0% of the total respondents Strongly Disagreed while 4 respondents representing 2.2% also Disagreed that auditor rotation bring down interest rate and make long term fund available in their company. The researcher therefore believes that auditor rotation bring down interest rate and make long term fund available.

**TABLE 4.7: DOES AUDITOR ROTATION HELP IN ATTAINING TARGET PROFIT IN YOUR COMPANY?**

CHOICE	NO. OF RESPONDENTS	PERCENTAGE (%)
Strongly Agree	14	50.0
Agree	10	47.8
Strongly Disagree	0	00.0
Disagree	4	2.2
TOTAL	28	100

**Source: Researcher's Survey, 2025**

From the table above, 14 respondents representing 50% of the total respondents strongly agreed that auditor rotation help in attaining target profit in their company, 10 respondents representing 47.8% also agreed to the question. 0 respondents representing 00.0% of the total respondents Strongly Disagreed while 4 respondents representing 2.2% also Disagreed that auditor rotation help in attaining target profit in their company. The researcher therefore believes that auditor rotation help in attaining target profit in their company.

**TABLE 4.8: DOES STAFF AND MANAGEMENT IN YOUR COMPANY HAVE EXPERIENCE ON AUDITOR ROTATION?**

CHOICE	NO. OF RESPONDENTS	PERCENTAGE (%)
Strongly Agree	20	71.6
Agree	8	28.64
Strongly Disagree	0	00.0
Disagree	0	00.0
TOTAL	28	100

**Source: Researcher's Survey, 2025**

From the table above, 20 respondents representing 71.6% of the total respondents strongly agreed that staff and management in their company have experience on auditor rotation, 8 respondents representing 28.64% also agreed to the question. 0 respondents representing 00.0% of the total respondents Strongly Disagreed while 0 respondents representing 0.00% also Disagreed that staff and management in their company have experience on auditor rotation.

**TABLE 4.9: DOES AUDITOR ROTATION ENHANCE EFFECTIVE PERFORMANCE OF STAFF AND MANAGEMENT IN YOUR COMPANY?**

CHOICE	NO. OF RESPONDENTS	PERCENTAGE (%)
Strongly Agree	14	50.0
Agree	10	47.8
Strongly Disagree	0	00.0
Disagree	4	2.2
TOTAL	28	100

**Source: Researcher's Survey, 2025**

From the table above, 14 respondents representing 50% of the total respondents strongly agreed that auditor rotation enhance effective performance of staff and management in their company, 10 respondents representing 47.8% also agreed to the question. 0 respondents representing 00.0% of the total respondents Strongly Disagreed while 4 respondents representing 2.2% also Disagreed that auditor rotation enhance effective performance of staff and management in their company. The researcher therefore believes that auditor rotation enhance effective performance of staff and management in their company.

**TABLE 4.11: DOES CONTINUOUS BUDGET FOR TRAINING INFLUENCE YOUR COMPANY COST?**

CHOICE	NO. OF RESPONDENTS	PERCENTAGE (%)
Strongly Agree	16	57.28
Agree	12	42.96
Strongly Disagree	0	00.0
Disagree	0	00.0
TOTAL	28	100

**Source: Researcher's Survey, 2025**

From the table above, 16 respondents representing 57.28% of the total respondents strongly agreed that continuous budget for training influence their company cost, 12 respondents representing 42.96% also agreed to the question. 0 respondents representing 00.0% of the total respondents Strongly Disagreed while 0 respondents representing 00.0% also Disagreed that continuous budget for training influence their company cost. The researcher therefore believes that continuous budget for training influence your company cost.

**TABLE 4.12: DOES LACK OF TRAINING AFFECT THE COMPANY COST IN A POSITIVE WAY?**

CHOICE	NO OF RESPONDENTS	PERCENTAGE (%)
Strongly Agree	21	75
Agree	7	25
Strongly Disagree	00	00.0
Disagree	00	00.0
TOTAL	28	100

**Source: Researcher's Survey, 2025**



From the table above, 21 respondents representing 75% of the total respondents strongly agreed that lack of training affect the company cost in a positive way, 7 respondents representing 25% also agreed to the question. No respondent Disagreed to the posed question and No respondent strongly disagreed that lack of training affect the company cost in a positive way.

#### 4.4 TEST OF HYPOTHESES

##### HYPOTHESIS 1

**H<sub>01</sub>:** auditor rotation has no significance effect on productivity and profitability in the manufacturing industry.

Table 4.4.1

Option	No. of Respondent	Percentage (%)
Strongly agreed	14	50.0
Agreed	10	47.8
Undecided	0	0.00
Disagree	4	2.2
Strongly disagreed	0	0.0
<b>Total</b>	<b>28</b>	<b>100</b>

Field survey, 2025

Option	F <sub>o</sub>	F <sub>e</sub>	F <sub>o</sub> – F <sub>e</sub>	(F <sub>o</sub> – F <sub>e</sub> ) <sup>2</sup>	(F <sub>o</sub> – F <sub>e</sub> ) <sup>2</sup> /e
Strongly agreed	14	10	4	16	1.6
Agreed	10	10	0	0	0.0
Undecided	0	10	-10	100	10
Disagree	4	10	-6	36	3.6
Strongly disagreed	0	10	-10	100	10
<b>Total</b>	<b>28</b>				<b>25.2</b>

Therefore,  $D_f(r-1) (c - 1)$

$$= (5 -) (2 - 1)$$

$$= (4) (1)$$

$$= 4$$

Level of significance = 0.5

$$X^2 = \sum \frac{(F_o - F_e)^2}{F_e} = 25.2$$

Therefore,  $X^2$  calculated = 2.52

$X^2$  Tabulated = 9.49

### **Decision rule**

If  $X^2$  tabulated is  $> X^2$  calculated, accepted the null hypothesis ( $H_o$ ) and reject the alternative hypothesis ( $H_1$ ) but if  $X^2$  tabulated is  $< X^2$  calculated, accept the alternative ( $H_1$ ) and reject the null hypothesis

### **Decision**

Since  $X^2$  tabulated 9.49 is less than  $X^2$  calculated 2.52 alternative hypothesis ( $H_1$ ) which stated that auditor rotation has significant effect on productivity and profitability in the manufacturing industry is accepted while the  $H_o$  that stated that auditor rotation has no effect on productivity and profitability in the manufacturing industry is rejected.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1 SUMMARY**

Mandatory audit rotation is a regulatory requirement that requires companies to change their external audit firm after a certain period of time, typically ranging from 5 to 10 years. The primary rationale behind this policy is to enhance auditor independence and improve audit quality by reducing the risk of over-familiarity between the auditor and the. The assumption is that regular changes in audit firms would prevent auditors from developing too close a relationship with the client, which could compromise their professional skepticism and judgment. However, the impact of mandatory audit firm rotation on audit quality and costs is a subject of ongoing debate and research. While the policy may enhance auditor independence, it can also disrupt the auditor-client relationship and lead to a loss of client-specific knowledge, potentially compromising audit quality. Additionally, the costs associated with mandatory rotation, such as the time and resources required for the transition to a new audit firm, may outweigh the potential benefits. With mixed opinions from previous studies, this study aimed to investigate the impact of mandatory audit firm rotation on both audit quality and audit costs, providing a comprehensive analysis of the trade-offs involved.

#### **5.2 CONCLUSION**

Conclusively, mandatory auditor rotation and auditor type is a major significant factor in determining the quality of audit report in Nigeria. The importance of mandatory auditor rotation in Nigerian firms cannot be over emphasized. Therefore firms should make sure that they adopt mandatory auditor rotation and also seek the partnership of one of the big four (4) auditors if they want a quality audit report.

### **5.3 RECOMMENDATION**

- i. The independence of the board of audit committee should be further strengthened
- ii. The Central Bank of Nigeria should think of other ways to address concerns about audit quality as the policy might only increase the cost of audit firms and may not necessarily improve audit quality
- iii. Audit specialization should be encouraged just like in the field of medicine where you have the dentist, the optometrist, gynaecologist, paediatrics and neurosurgeons
- iv. Shareholders should have a way of calling for the letter of representation usually written by the auditor to the management and investigate the effort made by the management
- v. In correcting the grey areas highlighted by the auditor. Joint auditing can also be encouraged to avoid monopoly of audit opinion.
- vi. The Institute of Chartered Accountants of Nigeria (ICAN) should investigate the percentages of income her members receive from their clients to know if they are within the stipulated limit.

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## **APPENDIX**

Department of Accountancy,  
Institute of Finance and Mgt. Studies,  
Kwara State Polytechnic,  
P.M.B 1375 Ilorin,  
Nigeria.  
10<sup>TH</sup> July, 2025.

Dear Respondent,

### **REQUEST FOR THE COMPLETION OF QUESTIONNAIRE**

I am a final year student of above named institution, I am currently conducting a study on IMPACT OF MANDATORY AUDITOR ROTATION ON QUALITY OF AUDIT REPRT (A CASE STUDY OF SELECTED AUDIT FIRM IN NIGERIA). This study is an in partial fulfillment of the requirement for the award of National Diploma, (ND) in Accountancy.

I would be very grateful if you would kindly give your candid response to the under listed question. I promise to treat every information you supply in this questionnaires with almost confidence.

Thanks and God bless you.

Yours faithfully,

**ADEBIYI TAOFIKAT AYOMIDE**

## QUESTIONNAIRE

Please read and follow the instruction before answering any question

Thick in ✓ the box as appropriate

1. Sex: Male ( ) Female ( )
2. Marital status: Single ( ) Married ( )
3. Age: 20 – 30 years ( ) 31– 40 years ( ) 41 – 50 years ( ) 51 years and above ( )
4. Educational qualification: OND ( ) HND ( ) B.Sc ( ) PHD ( ) Master ( )
5. Position in organization: Junior staff ( ) Senior staff ( ) Management staff ( )
6. Indicate your profession: Food scientist ( ) Accountants ( ) Administration ( )

### SECTION B

7. Does auditor rotation has positive effect in your company? (a) yes ( ) (b) no
8. Does auditor rotation increase the profitability and productivity in your company? (a) yes ( ) (b) no
9. Does auditor rotation influence the operational efficiency in your company? (a) yes ( ) (b) no
10. Are there any significant difference between the auditor rotation and audit report in your company? (a) yes ( ) (b) no
11. Does auditor rotation bring down interest rate and make long term fund available in your company? (a) yes ( ) (b) no
12. Does auditor rotation help in attaining target profit in your company? (a) yes ( ) (b) no
13. Does staff and management in your company have experience on auditor rotation (a) yes ( ) (b) no
14. Does auditor rotation enhance effective performance of staff and management in your company? (a) yes ( ) (b) no
15. Does continuous budget for training influence your company cost? (a) yes ( ) (b) no
16. Does lack of training affect the company cost in a positive way? (a) yes ( ) (b) no