

Auditor Independence and Financial Reporting Quality: New Evidence from Listed Oil and Gas Companies in Nigeria

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Abstract

This study examined the effect of auditor independence on the financial reporting quality of listed oil and gas companies in Nigeria. The study addressed the limited sector-specific evidence and inconsistent findings regarding the effects of auditor switching, audit tenure, audit fees, and Big-4 affiliation on financial reporting quality. Anchored in Agency Theory, the study adopted an ex-post facto research design and obtained secondary data from the annual reports of six listed oil and gas companies covering 2012–2021, resulting in 60 firm-year observations. Financial reporting quality was measured using discretionary accruals estimated with the Modified Jones Model, while data were analyzed using descriptive statistics, correlation analysis, and Generalized Least Squares random-effects regression. The results showed that auditor switching and audit fees had positive but statistically insignificant effects on financial reporting quality, while Big-4 affiliation had a negative but insignificant effect. Audit tenure had a positive and statistically significant effect at the 10% level. The random-effects panel model reported an overall panel R^2 of 80.55%, indicating that the explanatory variables jointly accounted for a substantial proportion of the variation in financial reporting quality across the sampled firms and study period. The findings theoretically support the knowledge-effect perspective within Agency Theory by demonstrating that longer auditor–client relationships can strengthen monitoring through accumulated client- and industry-specific knowledge. Practically, the results suggest that auditor competence, engagement experience, and sector-specific expertise may be more important for financial reporting quality than frequent auditor rotation, audit fees, or audit-firm brand. The study recommends that regulators and corporate management adopt a balanced rotation policy that preserves beneficial auditor knowledge while strengthening partner rotation and safeguards against familiarity threats. The study contributes to the literature by providing sector-specific panel evidence that distinguishes the effects of four dimensions of auditor independence on financial reporting quality in Nigeria's oil and gas industry.

Keywords: Auditor independence, financial reporting quality, audit tenure, auditor switching, audit fees, Big-4 affiliation.

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1. Introduction

Financial reporting quality is fundamental to investor confidence, regulatory oversight, and sound economic decision-making because it reflects the extent to which published financial statements faithfully represent a company's underlying economic activities. Its importance is particularly pronounced among listed oil and gas companies in Nigeria, given the sector's strategic contribution to government revenue and foreign exchange earnings, the complexity of its transactions, and persistent concerns about revenue leakages, earnings manipulation, weak corporate governance, and inadequate regulatory enforcement (Eze & Nwosu, 2022; Chukwuma, 2024). External auditors are expected to strengthen the credibility of financial reports by providing objective assurance; however, their effectiveness depends substantially on their independence from management and other client pressures. Auditor switching may reduce familiarity threats but disrupt accumulated client knowledge; extended audit tenure may improve industry-specific expertise while weakening objectivity; audit fees may support adequate audit effort but create economic dependence; and Big-4 affiliation may provide technical expertise and reputational advantages without necessarily guaranteeing independence in every engagement (Okolie & Izedonmi, 2021; Ugwunta & Nweze, 2023; Ibrahim & Hassan, 2024). These competing effects, together with continuing concerns about the credibility of corporate reporting in Nigeria's oil and gas sector, create the need to determine whether auditor independence improves financial reporting quality. For listed oil and gas companies in Nigeria, FRQ is even more critical. The oil and gas sector contributes substantially to government revenue and foreign exchange earnings, making it a vital component of the economy (Chukwuma, 2024). However, the sector has also been associated with controversies over revenue leakages, under-reporting of earnings, and corruption-related practices. Reliable financial reporting can therefore mitigate information asymmetry, reduce agency costs, and promote sustainable investment in the industry (Ibrahim & Hassan, 2024). In this sense, FRQ is not just an accounting measure but a driver of investor confidence and corporate legitimacy.

Despite Nigeria's adoption of International Financial Reporting Standards and the introduction of regulatory requirements intended to strengthen auditor independence, doubts persist about whether the financial statements of listed oil and gas companies faithfully reflect their underlying economic activities, particularly in a sector characterised by complex transactions, substantial audit fees, revenue-leakage concerns, and recurrent corporate-governance weaknesses (Eze & Nwosu, 2022; Adebayo & Oke, 2023; Chukwuma, 2024). The mechanisms designed to protect auditor independence also present unresolved trade-offs: auditor switching may reduce familiarity threats but deprive a new auditor of accumulated client knowledge; extended audit tenure may improve industry-specific competence while creating excessive closeness to management; high audit fees may finance greater audit effort but generate economic dependence; and Big-4 affiliation may provide technical expertise and reputational discipline without necessarily guaranteeing objective assurance (Okolie & Izedonmi, 2021; Owolabi & Makinde, 2023; Ugwunta & Nweze, 2023; Ibrahim & Hassan, 2024). Existing Nigerian studies have produced mixed evidence and have largely examined manufacturing companies, deposit money banks, parastatals, or broad samples of listed firms, leaving insufficient sector-specific evidence on the combined effects of these dimensions of auditor independence on financial reporting quality in the strategically important oil and gas industry. Consequently, it remains unclear which aspects of auditor independence materially improve financial reporting quality in listed Nigerian oil and gas companies. This study therefore examines the effects of auditor switching, audit tenure, audit fees, and Big-4 affiliation on the financial reporting quality of listed oil and gas companies in Nigeria. The main objective of this study is to examine the effect of auditor independence on financial reporting quality in listed oil and gas companies in Nigeria.

2. Literature Review

Conceptual Framework

Concept of Auditor Independence

Auditor independence is the cornerstone of reliable financial audits, as it underpins the credibility and objectivity of the assurance process. Independence ensures that auditors can provide an unbiased verification of financial statements, free from management influence or vested interests. Without independence, even the most technically proficient audit loses its value, as stakeholders cannot trust that the auditor's opinion reflects the true financial condition of the entity (Adeyemi & Uche, 2021). The International Federation of Accountants (IFAC) emphasizes that both actual and perceived independence are essential; auditors must avoid conflicts of interest and be seen as impartial by users of financial reports (Mustapha et al., 2023).

Audit Fee

An audit fee is the compensation paid to an external auditor for professional services rendered during an audit engagement. The determination of audit fees reflects the scope and complexity of the audit, the auditor's expertise, and the level of risk associated with the engagement (Abbas-Zadeh, 2017). In the Nigerian context, audit fees are particularly significant because they influence the economic relationship between auditors and their clients, which in turn affects auditor independence and financial reporting quality (Bala, 2018). Audit fees have a dual nature in the context of auditor independence. On one hand, adequate audit fees enable auditors to conduct thorough, high-quality audits, exercise professional skepticism, and detect material misstatements (Chukwuma, 2024). On the other hand, excessive audit fees may create economic dependence that compromises independence, as auditors may become reluctant to issue qualified opinions for fear of losing the engagement (Okolie & Izedonmi, 2021). The IFAC Code of Ethics explicitly cautions that client size, measured by the size of fees, could raise doubts about auditor independence.

Audit Tenure

Audit tenure refers to the total duration an audit firm or individual auditor has maintained an engagement with a particular client, typically measured as the number of consecutive years the auditor has audited the client (Johnson et al., 2002). Audit tenure has two distinct dimensions: the tenure of the engagement partner and the tenure of the audit firm. While the length of the auditor-client relationship has been a subject of longstanding regulatory and scholarly interest, the empirical evidence on its effect on audit quality and financial reporting quality remains inconclusive (Tabsyir et al., 2025; Inneh, 2025). The debate on audit tenure is shaped by two competing theoretical perspectives. On one hand, the knowledge effect suggests that longer audit tenure enhances audit quality by allowing auditors to accumulate client-specific and industry-specific expertise over time (Bratten et al., 2019). As auditors become more familiar with a company's operations, accounting systems, and internal controls, they are better positioned to identify material misstatements and exercise professional judgment (Lennox & Wu, 2018). On the other hand, the familiarity threat perspective argues that prolonged auditor-client relationships compromise auditor independence and objectivity. As tenure lengthens, auditors may develop close personal and professional relationships with management, leading to excessive trust, reduced professional skepticism, and a greater likelihood of overlooking irregularities (Inneh, 2025; Okolie, 2023).

Big-4 Audit

An audit firm is classified as large if it belongs to the Big-4, the four largest global accounting networks: Deloitte, Ernst & Young (EY), KPMG, and PricewaterhouseCoopers (PwC) (Jerry & Saidu, 2018). The term "Big Four" refers to these top four accounting firms globally that audit the vast majority of publicly traded companies worldwide. Collectively, the Big-4 audit 98 per cent of global corporations with a turnover of US\$1 billion or more (Parliament of Australia, 2024). In Nigeria, the Big-4; KPMG, PwC, EY, and Deloitte continue to dominate the audit space, collectively earning over N28.17 billion in 2024

and serving as auditors to most listed companies, including those in the strategically important oil and gas sector (Yahaya, 2024b).

Concept of Financial Reporting Quality

Financial reporting quality (FRQ) refers to the accuracy, reliability, and transparency of financial information disclosed by an organization. It ensures that stakeholders such as investors, regulators, creditors, and management have access to credible and relevant data for decision-making (Bakare et al., 2022). High-quality financial reports comply with established accounting standards, faithfully reflect an organization's financial performance, and reduce the risk of misinformation. In the oil and gas sector, FRQ is particularly critical due to the industry's strategic economic value, capital intensity, and the complex nature of operations that often involve high-value transactions, joint ventures, and multi-jurisdictional activities (Idowu & Eze, 2023).

The International Accounting Standards Board (IASB) provides a widely accepted conceptual framework by identifying relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information. According to IASB (2010; 2018), information is useful when it is not only relevant and faithfully represents what it purports to depict but also when its usefulness is enhanced by comparability, verifiability, timeliness, and understandability.

2.2 Theoretical Framework

This study is underpinned by Agency Theory, which provides the most appropriate lens for understanding the principal-agent relationship between shareholders and management, and the critical role of auditor independence in ensuring financial reporting quality.

Agency theory is credited to Jensen and Meckling (1976) and provides the primary theoretical framework for this study. The theory stipulates that the separation of ownership and control in modern corporations creates information asymmetry between principals (shareholders) and agents (managers). This separation allows directors and managers to exploit shareholders and potentially cause delays in financial reporting that would otherwise be useful for shareholders' assessment of managerial performance.

Agency theory explains that managers, as agents, may not always act in the best interests of shareholders. They may engage in opportunistic behaviour, such as earnings management, selective disclosure, or even fraudulent reporting, to maximise their personal benefits, including performance bonuses, job security, or reputation at the expense of shareholders (Bosse & Phillips, 2016). This creates a demand for monitoring mechanisms to align the interests of agents with those of principals. External auditors serve as one of the most critical monitoring mechanisms, providing independent verification of financial statements and reducing information asymmetry (Bushman & Smith, 2001). However, the effectiveness of this monitoring depends on the independence of auditors. When auditors are not independent, they may fail to detect or report managerial opportunism, thereby compromising financial reporting quality (DeAngelo, 1981; Watts & Zimmerman, 1983).

Agency theory is appropriate for this study for several reasons. First, it directly addresses the principal-agent relationship between shareholders and management, which is central to understanding the demand for high-quality financial reporting and independent audit assurance. Second, it explains why auditor independence is critical when auditors are independent, they effectively monitor managerial behaviour and reduce information asymmetry, thereby improving financial reporting quality. Third, it provides a framework for understanding the specific dimensions of auditor independence examined in this study: audit fees (economic dependence may compromise independence), audit tenure (familiarity threats may impair objectivity), auditor switching (may signal changes in the monitoring relationship), and Big-4 affiliation (larger auditors may provide stronger monitoring).

2.3 Empirical Review

Auditors Independence and Financial Reporting Quality

Otuwa (2019) carried out a study on auditors' independence and quality of financial reporting in listed manufacturing companies in Nigeria. The study adopted context analysis research design; data was collected from secondary sources from period 2013-2017 using descriptive correlation statistics. The findings stated that audit incentives, audit tenure and audit client size have a significant positive

relationship with financial reporting quality, audit reporting lag has a positive but insignificant correlation with FRQ, while Big-4 have significant negative relationship with FRQ.

Okunola (2019) investigated the effect of auditor's independence on the financial reporting quality of Parastatals in Lagos State, Nigeria. The findings show that when an auditor alienates his personal interest from audit and his ability to issue a qualified audit opinion where necessary, have a statistically significant effect on improving both the fundamental and enhanced qualitative characteristics of financial reporting.

Majiyebo (2018) examined the effect of auditor independence and size on the financial reporting quality of listed deposit money banks (DMB) in Nigeria. The study reveals that audit committee independence has a negative but significant effect on the financial reporting quality of listed deposit money banks in Nigeria. Also, audit committee size has no significant effect on the financial reporting quality of listed deposit money banks in Nigeria.

Audit Tenure on Financial Reporting Quality

Bratten et al. (2019) examined the association between audit firm tenure and financial reporting. The study found a positive relationship between audit firm tenure and financial reporting quality, and this association is particularly strong in banks that are more complex. The study findings largely support the notion that a long relationship with the client reflects the underlying demand for expertise, which is critical for high quality audits of complex organizations.

Priyanti and Dewi (2019) examined the effect of auditor tenure, audit rotation, public accounting firm size, and client's company size on audit quality. The empirical results of this study show that audit tenure and public accounting firm size have no effect on audit quality; audit rotation has negative and significant effect on audit quality; and client's company size has positive and significant effect on audit quality.

Nzewi (2020) examined the effect of auditor tenure and audit fees on audit quality of deposit money banks in Nigeria. Based on the analysis, the study found that audit committee independence affects audit quality of quoted Nigerian deposit money banks and that audit fees have affected audit quality of quoted Nigerian deposit money banks.

Big-4 on Financial Reporting Quality

Musa Jerry & Saidu (2018) examined the impact of audit firm size on financial reporting quality of listed insurance companies in Nigeria. The study found that audit firm size has a positive and significant impact on financial reporting quality. The study recommends that smaller accounting firm should invest more resources in technology and staff training, especially in specialized businesses, so as to enable them to compete with other accounting firms in auditing.

Zandi et al. (2019) investigated whether firms audited by big four auditors have better financial reporting quality as compared to firms audited by smaller auditors in Pakistan. The study found that big four auditors have curtailed accrual-based earnings management activities in firms. However, firms audited by big four auditors are more engaged in costly real earnings' management activities.

Kariuki & Oluoch (2020) examined the effect of audit size on financial reporting quality of firms listed in Nairobi securities exchange. The study concluded that there was a positive effect of audit committee size on financial reporting quality at the Nairobi Securities Exchange.

Audit Fees on Financial Reporting Quality

Bala (2018) examined the relationship between audit fees and financial reporting quality of listed firms in Nigeria. The study reveals that higher audit fees are associated to lower level of discretionary accruals and thus imply higher financial reporting quality. The result also supports the resource dependence theory which proposes that higher percentage of financial experts in the board lessen the degree of accounting manipulation.

Oladipupo & Monye-Emina (2016) observed the effect of abnormal audit fees on audit quality in audit market in Nigeria. Using a probit binary regression technique on 350 firm observations data, it was observed that both positive and negative abnormal audit fees had irrelevant positive impacts on audit quality. This shows that abnormal audit fee does not matter to audit quality.

Auditors Switch on Financial Reporting Quality

Prior research in auditing provides evidence that companies engage in opinion shopping, which has the potential to decrease auditor independence and financial reporting quality (Newton et al., 2016). Decreased financial reporting quality provides less assurance that the financial statements reflect the underlying economic condition of the company and increases the likelihood that the financial statements reflect management bias and contain material errors (Zhang et al, 2014).

3. Methodology

This study adopted an ex-post facto research design. The population comprised all eight (8) listed oil and gas companies on the Nigerian Exchange Group (NGX) as at the period covered by the study (2012–2021). From the population of eight listed oil and gas companies, six (6) companies were selected using purposive sampling based on the availability of complete annual reports for the entire study period. The final sample consisted of six companies over a ten-year period, yielding a total of 60 firm-year observations (6 companies × 10 years).

Financial reporting quality was measured using discretionary accruals derived from the Modified Jones Model as proposed by Dechow, Sloan, and Sweeney (1995). The model is specified as follows:

$$\frac{TA_{it}}{A_{it-1}} = \alpha_0 + \alpha_1 \left(\frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}} \right) + \alpha_2 \left(\frac{PPE_{it}}{A_{it-1}} \right) + \varepsilon_{it}$$

Where:

- TA_{it} = Total accruals for firm i in year t
- A_{it-1} = Total assets for firm i at the end of year $t-1$
- ΔREV_{it} = Change in revenues for firm i from year $t-1$ to year t
- ΔREC_{it} = Change in receivables for firm i from year $t-1$ to year t
- PPE_{it} = Gross property, plant, and equipment for firm i at the end of year t
- ε_{it} = Error term (discretionary accruals)

Auditor independence was proxied by four variables: audit fee, audit tenure, Big-4 affiliation, and auditor switching. Control variables included return on assets (ROA), debt to assets (DTA), and firm size (FS).

Model Specification

$$FRQ_{it} = \beta_0 + \beta_1 AF_{it} + \beta_2 AT_{it} + \beta_3 B4A_{it} + \beta_4 AS_{it} + \beta_5 ROA_{it} + \beta_6 DTA_{it} + \beta_7 FS_{it} + \varepsilon_{it}$$

Where:

FRQ_{it} = Financial Reporting Quality (discretionary accruals) for firm i in year t

β_0 = Intercept (constant term)

β_1 to β_7 = Slope parameters (coefficients)

AF_{it} = Audit Fee for firm i in year t

AT_{it} = Audit Tenure for firm i in year t

$B4A_{it}$ = Big-4 Affiliation for firm i in year t

AS_{it} = Auditor Switching for firm i in year t

ROA_{it} = Return on Assets for firm i in year t (control variable)

DTA_{it} = Debt to Assets for firm i in year t (control variable)

FS_{it} = Firm Size for firm i in year t (control variable)

ε_{it} = Error term for firm i in year t

i = Cross-sectional index (firms 1 to 6)

t = Time index (years 2012 to 2021)

4. Results and discussions

Table 1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
FRQ	60	-0.017	0.317	-0.708	1.96
AS	60	0.117	0.324	0	1
B4A	60	0.600	0.494	0	1
AT	60	0.817	0.390	0	1
AF	60	4.425	0.291	3.74	5.29
ROA	60	1.584	26.545	-71.36	176.27
DTA	60	76.312	29.968	53.68	247.85
FS	60	7.757	0.275	7.12	8.32

Source: Researcher's Computation (2026)

Financial Reporting Quality (FRQ) has a mean value of approximately -0.017, indicating that, on average, the financial reporting quality of the sampled oil and gas companies is slightly negative. The standard deviation of 0.317 suggests considerable variation in reporting quality across firms. Auditor Switching (AS) has a mean value of 0.117, indicating that approximately 11.7% of the firm-year observations involved auditor switching. Big-4 Affiliation (B4A) has a mean value of 0.600, suggesting that 60% of the sampled firm-year observations were audited by Big-4 firms. Audit Tenure (AT) has a mean value of 0.817, indicating that approximately 81.7% of the observations involved auditors who had served for three or more years.

The mean audit fee (log-transformed) is 4.425, with a standard deviation of 0.291. The mean ROA is 1.584%, indicating that, on average, the sampled companies generate modest returns on their assets. However, the standard deviation of 26.545 is notably high, reflecting significant variability in profitability across firms. The mean DTA is 76.312%, suggesting that, on average, the sampled companies finance approximately 76% of their assets through debt. The mean firm size (log-transformed) is 7.757, with a standard deviation of 0.275.

Correlation Analysis

Table 2: Correlation Matrix

Variables	FRQ	AS	B4A	AT	AF	ROA	DTA	FS
FRQ	1.000							
AS	-0.063	1.000						
B4A	-0.086	-0.356	1.000					
AT	0.077	-0.038	-0.250	1.000				
AF	0.053	-0.235	0.290	-0.057	1.000			
ROA	0.052	-0.138	-0.118	-0.011	-0.135	1.000		
DTA	-0.111	0.034	0.214	-0.099	0.182	-0.238	1.000	
FS	-0.022	-0.129	0.461	-0.150	0.687	-0.227	0.465	1.000

Source: Researcher's Computation (2026)

FRQ exhibits a weak negative correlation with auditor switching (AS: $r = -0.063$) and Big-4 affiliation (B4A: $r = -0.086$), suggesting that these variables may be inversely related to financial reporting quality. However, FRQ shows a weak positive correlation with audit tenure (AT: $r = 0.077$), audit fees (AF: $r = 0.053$), and return on assets (ROA: $r = 0.052$). The correlation between FRQ and debt to assets (DTA: $r = -0.111$) is negative, while the correlation with firm size (FS: $r = -0.022$) is negligible.

The correlation between audit fees (AF) and firm size (FS) is relatively high ($r = 0.687$), suggesting a strong positive relationship. This is expected, as larger firms typically pay higher audit fees. Similarly, firm size (FS) shows moderate positive correlations with Big-4 affiliation (B4A: $r = 0.461$) and debt to assets (DTA: $r = 0.465$). The correlation coefficients are generally low to moderate, with no correlation exceeding 0.70, suggesting that multicollinearity is unlikely to be a serious concern.

Multicollinearity Test

Table 3: Variance Inflation Factor (VIF) Results

Variable	VIF	1/VIF
FS	2.17	0.461
AF	1.92	0.521
B4A	1.50	0.667
DTA	1.42	0.704
AS	1.34	0.746
AT	1.14	0.877
ROA	1.10	0.909
Mean VIF	1.56	

Source: Researcher's Computation (2026)

The VIF results indicate that all independent variables have VIF values substantially below the threshold of 5. The highest VIF value is 2.17 for firm size (FS), followed by audit fees (AF) at 1.92, Big-4 affiliation (B4A) at 1.50, and debt to assets (DTA) at 1.42. The mean VIF is 1.56, which is well below the critical threshold. These results confirm that multicollinearity is not a significant concern in this study.

Normality Test

Table 4: Jarque-Bera Normality Test

Test Statistic	Value	Degrees of Freedom	Probability
Jarque-Bera	1569	2	0.0000

Source: Researcher's Computation (2026)

The Jarque-Bera test statistic is 1569 with a p-value of 0.0000, which is less than the 0.05 significance level. Therefore, the null hypothesis of normality is rejected, indicating that the residuals do not follow a normal distribution. The skewness test yields a p-value of 0.0000, indicating significant departure from symmetry. The kurtosis test also yields a p-value of 0.0000, indicating significant departure from the normal distribution's kurtosis.

Note on Normality: While the normality assumption is violated, it is important to note that in panel data regression with a sufficiently large sample size ($n = 60$), the Central Limit Theorem suggests that the distribution of the estimators tends to be approximately normal. Additionally, the study employs robust standard errors to address potential departures from normality.

Hausman Specification Test

Table 5: Hausman Test Results

Variable	Fixed Effects (b)	Random Effects (B)	Difference (b-B)	Standard Error
AS	-0.0617	0.0657	-0.1274	0.0673
B4A	-0.0096	-0.0591	0.0495	0.0476
AT	0.0134	0.1120	-0.0986	0.0564
AF	-0.0238	0.1526	-0.1764	0.1611
ROA	-0.0008	0.0108	-0.0116	0.0122
DTA	-0.0009	0.0003	-0.0012	0.0008
FS	0.2402	-0.5152	0.7554	0.2404
Test	Statistic	Degrees of Freedom	Probability	
Hausman Chi-Squared	1.80	7	0.9703	

Source: Researcher's Computation (2026)

The Hausman test statistic is 1.80 with a p-value of 0.9703, which is greater than the 0.05 significance level. Therefore, the null hypothesis cannot be rejected, indicating that there is no systematic difference between the fixed effects and random effects coefficients. This suggests that the random effects model is more appropriate for this study, as it is more efficient and yields consistent estimates. Consequently, the random effects model is adopted for hypothesis testing.

Random Effects Generalized Least Squares Regression Results

Table 6: Random Effects Regression Results

Variable	Coefficient	Standard Error	z-statistic	P-value
AS	0.0657	0.0789	0.83	0.405
B4A	-0.0591	0.0417	-1.42	0.156
AT	0.1120	0.0646	1.73	0.083
AF	0.1526	0.1521	1.00	0.316
ROA	0.0108	0.0639	0.17	0.865
DTA	0.0003	0.0008	0.35	0.728
FS	-0.5152	0.1263	-4.08	0.000
Constant	0.1860	0.5070	0.37	0.714

R-squared: Within = 0.0413 | Between = 0.6818 | Overall = 0.8055

Wald Chi-Squared (Joint Test): 215.73 | **Prob > Chi-Squared:** 0.0000

Sigma_u: 0.2825 | **Sigma_e:** 0.0970 | **Rho:** 0.8945

Source: Researcher's Computation (2026)

4.1 Discussion of Findings

Hypothesis 1: Auditor Switching and Financial Reporting Quality

The random effects regression results show that auditor switching (AS) has a coefficient of 0.0657, indicating a positive relationship with financial reporting quality. However, the relationship is not statistically significant, with a z-statistic of 0.83 and a p-value of 0.405. Therefore, the null hypothesis (H01) is accepted: Auditor switching has no significant effect on financial reporting quality of listed oil and gas companies in Nigeria.

The finding that auditor switching has no significant effect on financial reporting quality is consistent with some prior studies but contradicts others. The positive but insignificant coefficient suggests that while switching auditors may be associated with slightly higher reporting quality, the effect is not strong enough to be statistically meaningful. Several studies have found no significant relationship between auditor switching and financial reporting quality. Adli and Suryani (2019) examined the determinants of auditor switching in Indonesia and found that while companies engage in auditor switching for various reasons, the practice does not necessarily translate to improved audit quality or financial reporting quality. Similarly, a study on Nigerian firms by Onyabe et al. (2018) found that auditor rotation had an insignificant effect on financial reporting quality.

The lack of significance can be explained through the lens of agency theory. While auditor switching is intended to reduce familiarity threats and enhance auditor independence, the benefits of switching may be offset by the loss of client-specific knowledge that accumulates over time (Johnson et al., 2002). New auditors require time to understand the complexities of the client's operations, particularly in the technically demanding oil and gas sector. This "learning curve" effect may negate any independence benefits gained from switching, resulting in no net improvement in financial reporting quality.

Several factors may explain the insignificant relationship in this study. First, the frequency of auditor switching in the sample is relatively low (11.7% of observations), limiting the statistical power to detect significant effects. Second, mandatory auditor rotation in Nigeria is often symbolic rather than substantive, as companies may switch auditors but continue to engage firms with close relationships to management (Okoye & Maimako, 2023). Third, the oil and gas sector's complexity may mean that the benefits of switching are outweighed by the loss of industry-specific expertise. Finally, the Nigerian regulatory environment, characterised by weak enforcement, may undermine the effectiveness of auditor switching as a governance mechanism (Owolabi & Makinde, 2023).

Hypothesis 2: Audit Tenure and Financial Reporting Quality

The random effects regression results show that audit tenure (AT) has a coefficient of 0.1120, indicating a positive relationship with financial reporting quality. The relationship is statistically significant at the 10% level, with a z-statistic of 1.73 and a p-value of 0.083. Therefore, the null hypothesis (H02) is rejected: Audit tenure has a significant effect on financial reporting quality of listed oil and gas companies in Nigeria.

The finding that audit tenure has a positive and significant effect on financial reporting quality supports the "knowledge effect" argument, which posits that longer auditor-client relationships allow auditors to accumulate client-specific and industry-specific expertise, thereby enhancing audit quality and financial reporting quality (Bratten et al., 2019; Johnson et al., 2002). This finding is consistent with several prior studies. Bratten et al. (2019) examined the association between audit firm tenure and financial reporting quality in US banks and found a positive relationship, particularly in complex institutions where client-specific knowledge is critical. Similarly, Johnson et al. (2002) found that audit quality, measured by the magnitude of abnormal accruals, improves with audit tenure. In the Nigerian context, Owolabi and Makinde (2023) found that longer audit tenure is associated with improved financial reporting credibility, as auditors develop deeper understanding of client operations and are better positioned to detect material misstatements.

Agency theory provides a framework for understanding this finding. According to agency theory, auditors serve as monitoring mechanisms that reduce information asymmetry between principals (shareholders) and agents (management) (Jensen & Meckling, 1976). Longer audit tenure enhances the effectiveness of this monitoring by enabling auditors to develop deeper understanding of the client's operations, accounting systems, and internal controls. This accumulated knowledge allows auditors to exercise better professional judgment and detect material misstatements that would otherwise go undetected.

This finding has significant implications for audit regulation. While mandatory auditor rotation is intended to safeguard independence, it may inadvertently reduce audit quality by disrupting the accumulation of client-specific knowledge (Bratten et al., 2019). The findings suggest that regulators should consider the trade-off between independence and expertise when designing rotation policies. In the Nigerian context, where the oil and gas sector is technically complex, a balanced approach that allows for sufficient tenure while ensuring periodic partner rotation may be more appropriate than mandatory firm rotation.

Hypothesis 3: Audit Fees and Financial Reporting Quality

The random effects regression results show that audit fees (AF) have a coefficient of 0.1526, indicating a positive relationship with financial reporting quality. However, the relationship is not statistically significant, with a z-statistic of 1.00 and a p-value of 0.316. Therefore, the null hypothesis (H03) is accepted: Audit fees have no significant effect on financial reporting quality of listed oil and gas companies in Nigeria.

The finding that audit fees have no significant effect on financial reporting quality suggests that the level of fees alone does not drive improvements in reporting quality. While the direction of the relationship is positive, the lack of statistical significance indicates that other factors—such as auditor competence, independence, and audit effort—may be more important determinants of financial reporting quality than fee levels. This finding is consistent with some prior studies. Oladipupo and Monye-Emina (2016) examined abnormal audit fees in the Nigerian audit market and found that both positive and negative abnormal audit fees had an insignificant impact on audit quality. Similarly, a study on the effect of audit fees on audit quality in emerging markets found that fee levels alone do not explain variations in audit quality (Al-Sorihi, 2018).

However, other studies have found a significant positive relationship between audit fees and financial reporting quality. Bala et al. (2018) examined the relationship between audit fees and financial reporting quality of listed firms in Nigeria and found that higher audit fees are associated with lower discretionary accruals, implying higher financial reporting quality. Similarly, Chu et al. (2018) found that audit fees were positively associated with litigation risk, suggesting that higher fees reflect higher audit effort and quality.

Agency theory suggests that higher audit fees should enable auditors to conduct more thorough audits, exercise greater professional skepticism, and detect material misstatements more effectively (Bala et al., 2018). However, the lack of significance in this study may reflect the nature of audit fee determination in Nigeria's oil and gas sector. Audit fees in this sector are often substantial due to the complexity of operations and the need for specialised knowledge. However, these high fees may also

create economic dependence that compromises auditor independence, negating any quality-enhancing effects of higher fees (Okolie & Izedonmi, 2021).

Several factors may explain the insignificant relationship. First, the relatively homogeneous nature of audit fees in the sample (standard deviation of 0.291) may limit the ability to detect significant effects. Second, the presence of economic dependence may mean that higher fees do not translate to higher audit effort, as auditors may be reluctant to challenge management for fear of losing the engagement (Salisu & Lawal, 2024). Third, the provision of non-audit services, which is common in the oil and gas sector, may compromise auditor independence regardless of fee levels (Onulaka et al., 2019). Finally, regulatory gaps in the Nigerian environment may undermine the effectiveness of audit fee disclosure requirements, preventing stakeholders from accurately assessing fee-related independence threats (Okolie, 2023).

Hypothesis 4: Big-4 Affiliation and Financial Reporting Quality

The random effects regression results show that Big-4 affiliation (B4A) has a coefficient of -0.0591, indicating a negative relationship with financial reporting quality. The relationship is not statistically significant, with a z-statistic of -1.42 and a p-value of 0.156. Therefore, the null hypothesis (H04) is accepted: Big-4 affiliation has no significant effect on financial reporting quality of listed oil and gas companies in Nigeria.

The finding that Big-4 affiliation has no significant effect on financial reporting quality challenges the conventional wisdom that Big-4 firms inherently provide superior audit quality. The negative coefficient, while not statistically significant, suggests that being audited by a Big-4 firm may not guarantee higher financial reporting quality in the Nigerian context. This finding is consistent with several prior studies that have questioned the Big-4 quality premium. Lawrence et al. (2011) found that the effects of Big-4 auditors on audit quality are insignificantly different from those of non-Big-4 auditors when client characteristics are controlled for. Carp and Istrate (2021) found that Big-4 membership contributed to an increase in discretionary accruals, decreasing the quality of the audit for Romanian listed firms. Helmiati and Hernawati (2025) found no consistent differences between Big-4 and non-Big-4 auditors in suppressing earnings management practices in Indonesia.

In the Nigerian context, Otuya (2019) found that Big-4 affiliation had a significant negative relationship with financial reporting quality among listed manufacturing companies. Okegbe et al. (2019) found that Big-4 auditors did not necessarily deliver higher quality audits in Nigeria's oil and gas sector. Okoye and Maimako (2023) identified a "double-faced audit culture" of Big-4 firms towards audit quality, wherein they recognise and commit to the pursuit of audit quality but may fall short in practice.

Agency theory predicts that Big-4 auditors, with their greater resources and reputational concerns, should provide higher quality audits and better financial reporting quality (DeAngelo, 1981). However, the lack of significance in this study may reflect the unique characteristics of the Nigerian audit market. The Big-4 firms in Nigeria operate in a context of weak regulatory enforcement, significant fee pressures, and a competitive audit market where maintaining client relationships may take precedence over audit quality (Okoye & Maimako, 2023).

Several factors may explain the insignificant or negative relationship. First, the dominance of Big-4 firms in the Nigerian audit market has created market concentration that may reduce competition and create complacency (FRC, 2022). Second, the economic dependence of Big-4 firms on large oil and gas clients may compromise their independence, negating any quality advantages associated with their size and reputation (Salisu & Lawal, 2024). Third, the "reputational incentives" that drive Big-4 quality in developed markets may be weaker in emerging economies where regulatory enforcement is limited (Owolabi & Makinde, 2023). Fourth, the technical complexity of the oil and gas sector may require industry-specific expertise that non-Big-4 firms may possess, equalising the quality differential. Finally, the provision of non-audit services by Big-4 firms may create self-review threats that compromise audit quality regardless of auditor size (Onulaka et al., 2019).

5. Conclusion and Recommendation

5.1 Conclusion

Based on the findings of this study, the following conclusions are drawn:

- i. Auditor switching has no significant effect on financial reporting quality in listed oil and gas companies in Nigeria. While switching auditors may be intended to enhance independence and introduce fresh perspectives, the loss of client-specific knowledge and the learning curve required for new auditors may negate any potential benefits. The low frequency of switching in the sample and the symbolic nature of mandatory rotation in Nigeria may also explain the insignificance of this relationship.
- ii. Audit tenure has a positive and significant effect on financial reporting quality. This finding supports the knowledge effect argument, which posits that longer auditor-client relationships enable auditors to accumulate client-specific and industry-specific expertise, enhancing their ability to detect material misstatements and exercise professional judgment. This conclusion challenges the rationale for mandatory auditor rotation policies that disrupt long-standing auditor-client relationships.
- iii. Audit fees have no significant effect on financial reporting quality. While higher audit fees may enable more thorough audits, the level of fees alone does not guarantee improved reporting quality. Other factors; such as auditor competence, independence, and the effectiveness of regulatory oversight may be more important determinants of financial reporting quality than fee levels.
- iv. Big-4 affiliation has no significant effect on financial reporting quality. This conclusion challenges the conventional wisdom that Big-4 firms inherently provide superior audit quality. In the Nigerian context, the dominance of Big-4 firms, weak regulatory enforcement, economic dependence on large clients, and the "double-faced audit culture" may negate any quality advantages associated with Big-4 affiliation.
- v. Auditor independence jointly explains variations in financial reporting quality in Nigeria's listed oil and gas companies. The strong model fitness ($R\text{-squared} = 80.55\%$) confirms that the theoretical framework underpinning the study based on Agency Theory is appropriate for understanding the relationship between auditor independence and financial reporting quality.
- vi. Overall, the study concludes that while auditor independence is important for financial reporting quality, not all dimensions of independence are equally significant. Audit tenure emerges as the most important dimension, while auditor switching, audit fees, and Big-4 affiliation have insignificant effects. These findings have important implications for regulators, audit firms, and corporate management in Nigeria's oil and gas sector.

5.2 Recommendations

Based on the findings and conclusions of this study, the following recommendations are made:

- i. Regulators such as the Financial Reporting Council of Nigeria (FRCN) and the Securities and Exchange Commission (SEC) should reconsider mandatory auditor rotation policies. While rotation is intended to safeguard independence, it may inadvertently reduce audit quality by disrupting the accumulation of client-specific knowledge. A balanced approach that allows for sufficient tenure while ensuring periodic partner rotation may be more appropriate. This is particularly important in the technically complex oil and gas sector, where industry-specific expertise is critical.
- ii. Management of listed oil and gas companies should maintain continuity in auditor relationships to benefit from the positive effect of audit tenure on financial reporting quality. Companies should avoid frequent auditor switching, which may disrupt the accumulation of client-specific expertise. The technical complexity of the oil and gas sector requires auditors who have developed deep understanding of the company's operations, accounting systems, and internal controls.
- iii. Management should prioritise auditor competence and industry expertise over auditor brand name when selecting audit firms. The insignificant effect of Big-4 affiliation suggests that reputation alone does not guarantee quality. Companies should evaluate prospective auditors based on their industry-specific knowledge, technical expertise, and track record of delivering high-quality audits.

- iv. Audit firms, particularly non-Big-4 firms, should invest in developing industry-specific expertise in the oil and gas sector. The insignificant effect of Big-4 affiliation suggests an opportunity for non-Big-4 firms to compete on quality and expertise. Firms should provide specialised training, recruit industry experts, and develop technical resources to enhance their competence in the oil and gas sector.
- v. Shareholders and investors should actively monitor auditor independence and financial reporting quality. This includes reviewing audit fee disclosures, assessing auditor tenure, and evaluating the implications of auditor switching. Active monitoring by shareholders would enhance corporate governance and reduce information asymmetry.

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