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Effect of Auditor Rotation on Auditor Dependence and Audit Report Credibility

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Abstract: This research examined the auditor rotation effect on auditor dependence and audit report credibility. The motivation for the study stems from persistent concerns over the independence of the auditor and the credibility of "financial reporting," particularly in environments where long auditor-client relationships may weaken professional skepticism and increase economic dependence. Anchoring on the positivist research philosophy, the research design known as the cross-sectional survey was adopted. Data was gathered via a primary source, the questionnaire. It was distributed to 110 respondents comprising auditors, accountants, and financial managers. Analyses of data were undertaken using statistical methods (descriptive and multiple regression analysis). Mandatory auditor rotation has a significant negative effect on auditor dependence and a significant positive effect on audit report credibility. Similarly, voluntary auditor rotation was found to reduce auditor dependence and improve audit report credibility, although its impact was weaker compared to mandatory rotation. Overall, the findings suggest that auditor rotation reduces auditor dependence (enhances auditor independence) and strengthens the credibility of audit reports. It recommends stricter enforcement of mandatory rotation policies, strengthened audit committee oversight, and improved regulatory monitoring to reduce audit dependence and improve audit report credibility.

Keywords: Auditor Rotation, Auditor Dependence, Audit Report Credibility, Mandatory Rotation, Voluntary Rotation.

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1. INTRODUCTION

The Nigerian Code of Corporate Governance (NCCG) 2018 that the Financial Reporting Council of Nigeria (FRCN) issued offers a 10-year duration for public company auditors' rotation, although, in the case of joint auditors, the code never provided a rotation period for audit firms. Hence, the Audit Regulation 2020 was issued by FRCN. Fifteen years was specified as the maximum period for auditors' rotation for a joint audit arrangement. In order to ensure application of regulations that are harmonious in the capital market of Nigeria, the commission requires all operators in the capital market and public companies to ensure that they are in compliance with section 9.3 of the Audit Regulation 2020 provision the FRCN issued.

In ensuring a decrease in information irregularity (asymmetry) amongst management and stakeholders, auditors play a serious role. They play that role by providing assurance on the reliability of financial statements. Therefore, financial reporting credibility is largely reliant on the effectiveness, reliability, and independence of external auditors. Nevertheless, concerns vis-à-vis auditor independence have intensified following major corporate failures. One of the key threats to an auditor's independence remains the close relationships between auditors and their clients developed over time. The auditing profession is built upon the foundational principles of objectivity and independence, which are necessary to accurately evaluate an organization's financial statements (Suhayati & Dilyard, 2024). Fundamentally, financial reporting is deemed to be of high quality when it lacks material misstatement, acting as a check against the opportunistic behaviour of management driven by information asymmetry, a concept rooted in agency theory (Martani et al., 2021). Carey and Simnett (2006) therefore posit that prolonged auditor tenure may create familiarity and economic bonding, which will possibly impair professional skepticism and objectivity.

As a response to these concerns, to mitigate such risks, regulatory authorities across jurisdictions have introduced auditor rotation policies, either at the level as partner or as firm. Auditor rotation is the periodic replacement of an audit firm or audit partner after engagement for a duration that is specified. The policy's principal objective is the enhancement of the auditor independence by reducing the possibility of long-term relationships that may compromise objectivity. Chi et al. (2009) looked at it from a theoretical perspective, and opined that rotation is anticipated to strengthen independence and also improve audit report credibility by introducing a new perspective and perception into the audit process.

Notwithstanding its envisioned benefits, the effectiveness of auditor rotation remains a subject of debate in the accounting literature. Lennox, Wu, and Zhang (2014) and Okolie (2014) argues that weak regulatory enforcement, institutional constraints, and high levels of auditor-client dependence may complicate auditor rotation and audit quality link further. In such contexts, the benefits that are expected from the policy of rotation may not be fully realized, thereby raising questions about its practical effectiveness.

However, prolonged relationships between an auditor and a client can compromise these principles. To mitigate this, auditor rotation has emerged as a crucial structural mechanism aimed at safeguarding auditor independence and, consequently, ensuring the credibility of the final audit report (Martani et al., 2021). Again, given these opposing results and arguments, there is a need for further empirical investigation, particularly in economies that is evolving where frameworks of institution and enforcement mechanisms may differ significantly from developed countries. This study, therefore, examines "the effect of auditor rotation on auditor dependence and audit report credibility".

1.1. Objectives

This study is guided by the following specific objectives:

- To investigate the effect of mandatory auditor rotation on auditor dependence.
- To assess the effect of mandatory auditor rotation on audit report credibility.
- To evaluate the effect of voluntary auditor rotation on auditor dependence.
- To determine the effect of voluntary auditor rotation on audit report credibility.

1.2. Statement of Hypotheses

- H_{01}: Mandatory auditor rotation has no significant effect on auditor dependence.

- H_{02}: Mandatory auditor rotation has no significant effect on audit report credibility.
- H_{03}: Voluntary auditor rotation has no significant effect on auditor dependence.
- H_{04}: Voluntary auditor rotation has no significant effect on audit report credibility.

2. THEORETICAL FRAMEWORK

2.1. Agency Theory

Jensen and Meckling (1976) propounded it and posit that the theory explains the relationship. That is, between shareholders/principals and managers/agents. In the relationship, the daily running and management of the firm is kept in the hands of the managers on trust by the owners on their behalf. Agency theory describes the contractual relationship and inherent tension between company owners, known as principals, and corporate management, acting as agents (Jensen & Meckling, 1976). The theory posits that "conflicts of interest" may arise because managers may chase after personal objectives that are not aligned with shareholders' interests. Because of the separation of ownership and control, natural conflicts of interest arise between these two parties. Management may compromise the quality of financial reporting through opportunistic behavior or creative accounting to pursue their own financial interests at the expense of the owners (Bedford, 2020).

According to the theory, information asymmetry occurs because managers naturally have more information than shareholders about the firm, hence the need for independent verification of financial reports, which the external auditors provide. To mitigate this information asymmetry, external auditing serves as a vital monitoring mechanism (Wahyuningtiyas & Muid, 2024). High-quality, independent audits reduce the information gap between management and shareholders, thereby strengthening investor confidence and capital market efficiency (Li & Liu, 2024). The effectiveness of this monitoring mechanism rests deeply on external auditors not being dependent. Subsequent scholars have expanded the theory by emphasizing the role of auditing in mitigating agency conflicts. Audit quality, as elucidated by DeAngelo (1981), is a job of the auditor's capability to detect and report misstatements, which is influenced by independence. Similarly, Fama and Jensen (1983) highlighted that external audits function as an essential control mechanism to reduce agency costs and enhance accountability.

In relation to this study, the agency theory offers a base for understanding how auditor rotation can reduce agency problems by limiting long-term relationships (between auditors and management). By rotating auditors periodically, the risk of familiarity and economic dependence is reduced, thereby weakening the dependence of the auditor and strengthening his independence and improving the credibility of audit reports.

2.2. Stakeholder Theory

Stakeholder Theory was advanced by Freeman (1984). While agency theory primarily focuses on the shareholder-manager dynamic, stakeholder theory posits that firms exist within a broader network of relationships and are accountable to multiple parties whose interests are directly affected by the firm's activities (Freeman, 1984). These stakeholders extend significantly beyond shareholders to include employees, customers, regulators, creditors, host communities, and the general public. The theory emphasizes that corporate reporting should meet the expectations of all stakeholders, and this can only be achieved when financial statements are credible and transparent.

Stakeholder theory gained modern prominence as a direct response to corporate scandals, environmental degradation, and governance failures, highlighting the severe limitations of pure profit-maximization models (Freeman, et al., 2010). In the contemporary era, value creation is viewed as a collective process where firms generate economic and social value through ethical stakeholder engagement (Dowling, 2014). Neglecting these broader societal interests can lead to severe reputational damage, regulatory sanctions, and ultimately poor long-term financial performance (Gallemore, Maydew & Thornock, 2014).

External auditors play a crucial role in ensuring that these expectations are met by providing assurance on the fairness of financial reports. Donaldson and Preston (1995) argued that to corporate governance, stakeholder interests are intrinsic and must be safeguarded through mechanisms such as independent audits. Additionally, Gray, Kouhy, and Lavers (1995) emphasized that accountability to stakeholders requires high-quality reporting and assurance services.

Stakeholder Theory, in this study context, underscores the prominence of audit report credibility as a means of maintaining stakeholder confidence. Auditor rotation contributes to this objective by enhancing the supposed and real independence of auditors, thereby increasing the credibility of audit reports. When stakeholders perceive auditors as independent, they are likely to trust the information provided in financial statements.

2.3. Conceptual Clarifications

2.3.1. Auditor Rotation

The audit process, according to Edori and Egwanwor (2024), is a process that is continuous for the assembling of audit evidence. Auditor rotation is defined as the periodic replacement of the audit entity responsible for reviewing a company's financial statements (Suhayati & Dilyard, 2024). It refers to the systematic change of an audit firm or audit partner after a stated period of engagement with a client. The practice is primarily divided into two forms: audit firm rotation and audit partner rotation (Federsel, 2024) and also categorized into mandatory rotation, where regulations require periodic change, and voluntary rotation, where firms independently decide to switch auditors (Federsel, 2024). Firm rotation requires an entirely new public accounting firm to take over the engagement, while partner rotation simply changes the lead engagement partner within the same firm. Both forms are underpinned by the "fresh-look" hypothesis, which posits that incoming auditors bring new perspectives and a higher degree of professional skepticism to the audit process (Federsel, 2024).

The auditor rotation principal objective is to boost auditor independence by minimizing "familiarity threats" and also reducing the likelihood of prolonged auditor-client relationships that may impair objectivity (European Commission, 2014). The concept of auditor rotation gained prominence following major corporate scandals, which exposed weaknesses in audit independence and raised concerns about financial reporting credibility. Prolonged auditor tenure has been linked with increased risk of complacency and reduced professional skepticism, as auditors may become excessively familiar with client management (Carey & Simnett, 2006). In theory, rotation has the potential to strengthen and boost auditor independence yet can impair competence (Friedrich, Pappert & Quick, 2023).

2.3.2. Mandatory Auditor Rotation (MAR)

Mandatory Audit Firm Rotation (MAFR) involves the imposition of a regulatory requirement that forces companies to change their external auditors after a predetermined period (Gwala & Nomlala, 2021). Many countries worldwide mandate these rotations to reinforce independence; for instance, the European Union is a rare instance requiring both audit firm and audit partner rotations simultaneously, with key audit partners permitted a maximum tenure of seven years (Federsel, 2024). Similarly, South Africa began implementing MAFR in 2023 to de-concentrate the audit market and improve institutional trust (Gwala & Nomlala, 2021).

One commonly adopted practice, according to Sousa, Ribeiro, and Vicente (2021) and Martinez, Ribeiro, and Funchal (2019), is the enhancement of auditors' independence that is implemented via MAR. The primary objective of this policy is to enhance auditor independence by limiting long-term relationships between auditors and clients, which may create familiarity threats and compromise professional skepticism. Mandatory rotation introduces a "fresh perspective" into the audit process. MAR is a requirement that is regulatory and obliges firms to change their audit firm or audit partner after a specified period. He and Chen (2021) assert that mandatory rotation is employed and undertaken for the reason that it is required. There is still controversy on cost and efficiency, though MAR is seen as one mechanism that is vital in strengthening the independence of auditors and also enhancing the audit quality. He and Chen (2021) added that "mandatory rotation is more likely to improve audit quality when the incoming auditor is well-informed about the new client; knowledge about the new client of successor auditors should be considered when discussing the influences of mandatory auditor rotation." Evidence indicates that newly appointed auditors are more likely to challenge management assertions and apply rigorous audit procedures, as they are not influenced by prior engagements.

Mandatory rotation enhances objectivity by reducing complacency and encouraging auditors to exercise greater professional skepticism. By ensuring periodic changes in auditors, the policy addresses concern about economic dependence and long-standing relationships that may impair independence. In addition, companies subject to mandatory rotation are more likely to engage industry specialist auditors, which can enhance audit quality and financial reporting credibility.

Despite these benefits, mandatory auditor rotation has been widely debated. Critics argue that it imposes significant costs on firms, including transition costs, loss of institutional knowledge, and potential disruptions during the initial audit period. The Wesson (2021) study identified audit quality impairment and increased costs as unintended conceivable consequences of mandatory audit firm rotation in South Africa. Mandatory rotation may create unintended consequences. For instance, auditors newly appointed may face incentives to retain clients in subsequent engagements, possibly compromising independence in the early years. Moreover, the effectiveness of mandatory rotation depends on complementary governance mechanisms, such as strong audit committees and regulatory oversight.

2.3.3. Voluntary Auditor Rotation

In contrast to mandatory regimes, voluntary auditor rotation occurs when a company replaces its auditor based on internal management decisions rather than binding government regulations (Kirana & Ramantha, 2020). Voluntary auditor rotation is a firm's discretionary decision to change her external auditor without being compelled by any regulatory requirements. This form of rotation is typically driven by internal governance considerations such as improving audit quality, addressing auditor-client conflicts, or indicating transparency to stakeholders. Voluntary rotation, according to Kirana and Ramantha (2020), can be driven by a desire to align with corporate governance best practices, lower audit fees, or resolve disputes over accounting treatments. Because it is optional, its effectiveness at improving audit quality is often debated, as it may lack the rigid structural disruption required to truly reset the auditor-client relationship.

A company may be involved in voluntary rotation because it is seeking to save an audit fee or a service that is better (Tanyi, Raghunandan & Barua, 2010; Ettredge, Li, & Scholz, 2007). Voluntary changes often reflect firm-specific circumstances such as dissatisfaction with the audit services, management strategy changes, or the need for specialized expertise. Within the company policy framework, voluntary auditor change is permissible (Naibaho & Amanda, 2024), and thus, without any specific reason, changes may be implemented, and several considerations may lead to this decision, which may include audit opinion, financial distress, and the trajectory of the company's growth (Darmayanti, Africa, & Mildawati, 2021). Firms that voluntarily switch auditors are possibly aiming at demonstrating a commitment to transparency and accountability, in that way strengthening the confidence of stakeholders in financial reporting.

Voluntary auditor changes can be influenced by factors that are not linked to audit quality, such as financial distress or disagreements with auditors. Another limitation is the potential loss of client-specific knowledge when a new auditor is appointed. This learning curve can temporarily reduce audit efficiency and effectiveness, particularly in complex organizations. Despite this, voluntary rotation remains an important tool for firms seeking flexibility in managing auditor relationships while maintaining credibility in financial reporting.

2.3.4. Auditor Dependence

Audit, as opined by Edori and Edori (2018), relates to accounts and records examination as well as verification. This calls for the auditor's independence. Auditor independence is audit quality's cornerstone; therefore, any form of dependence impends stakeholder confidence and the credibility of financial reporting. While the literature most frequently refers to "auditor independence," its inverse, auditor dependence, is the critical risk factor in the auditing profession (Suhayati & Dilyard, 2024). Auditor dependence has to do with the degree to which an external auditor becomes financially, professionally, or socially reliant on a client. Auditor dependence manifests when an auditor relies heavily on a client for recurring financial revenue or develops an over-familiarity with the client's management team (Martani et al., 2021). This dependence compromises the auditor's mental attitude, threatening their ability to remain unbiased and objective when considering the facts and information being examined.

One major source of auditor dependence is economic dependence, which arises when a substantial quantity of any audit firm's revenue is gotten or accumulated from a single client. When fees of audit firms are from a specific client, hence a greater reliance by the audit firm, management assertions and decisions may not be challenged. Empirical evidence has shown that high client importance is associated with reduced audit quality and increased likelihood of earnings management (DeFond & Zhang, 2014). Although longer tenure can enhance audit efficiency resulting from accumulated experience and knowledge, it may concurrently weaken independence (International Auditing and Assurance Standards Board, 2020a). Recent empirical studies confirm that prolonged tenure is connected with both audit efficiency improvement and increased familiarity threats, highlighting the trade-off between knowledge and independence.

2.3.5. Auditor Rotation and Auditor Dependence

Familiarity threats rising from auditor-client closeness/relationship may result to a compromised independence of the auditor. This closeness according to Martani et al. (2021) may lead to a weakened attention to detail and a propensity to prioritize the satisfaction of the client. Nasution and Östermark (2019) opined that this pattern is displayed when auditors ignore current information and being not able to adjust their reports when they are confronted with evidence that are not in tandem with their defined notions about their clients. Auditor rotation has developed to become an important mechanism for regulatory and governance aimed at mitigating the dependence of auditors. It involves changing of audit firms or engagement partners periodically to prevent long-term relationships that will possibly impair independence. Auditor rotation is explicitly designed to sever auditor dependence. Long audit tenure increases the familiarity threat, which compromises audit independence and invariably impairs audit quality (Federsel, 2024). By rotating the auditor, the psychological and financial dependencies built over years of consecutive engagements are reset (Suhayati & Dilyard, 2024).

By limiting the auditor's tenure, it may avert the development of auditor and client's excessive familiarity. Newly appointed auditors tend to exhibit greater professional skepticism and are more probable to detect material misstatements, mostly in the early years of engagement (Carcello & Nagy, 2004). From a theoretical perspective, auditor rotation reduces economic dependence since it diversifies the client base of audit firms over time. It also alleviates relational dependence as it prevents long-standing personal relationships between auditors and client management. The International Federation of Accountants (IFAC, 2022) emphasizes that rotation enhances independence by introducing a "fresh perspective" into the audit process.

Auditor rotation is not without challenges. However, some opponents argue against this, utilizing the "learning effect" hypothesis, which suggests that auditors struggle in the early years of an engagement and that dependence is actually a byproduct of necessary, deep client-specific knowledge (Federsel, 2024). One major concern is the loss of client-specific knowledge when a new auditor is appointed. New auditors require time to understand the client's operations, internal controls, and industry dynamics, which may temporarily reduce audit efficiency and increase audit risk (IAASB, 2020a). Additionally, frequent rotation may increase audit costs due to the need for repeated on boarding and learning processes. Voluntary auditor rotation is less stringent, yet it plays a role in reducing auditor dependence. Organisations that voluntarily change auditors may do so to signal strong corporate governance and enhance investor confidence. However, because it is not enforced, it may be inconsistently applied and may not address entrenched dependence issues fully (European Commission, 2021). Furthermore, its effectiveness hinge on complementary governance mechanisms such as audit committee oversight, regulatory enforcement, and restrictions on non-audit services. Only rotation may not eliminate dependence if auditors continue in deriving significant revenues from consulting services or operate in audit markets that are highly concentrated.

2.3.6. Audit Report Credibility

Edori (2026) elucidates that the audit process is a machinery that is deemed key in encouraging "accountability, transparency, and efficiency". Meaning that it is vital for a credible audit report. Credibility is not just about the mathematical accuracy of the report, but the market's perception of the auditor's uncompromised performance. Audit report credibility refers to the degree of trust that external stakeholders such as investors, creditors, and regulatory bodies place in the auditor's opinion (Gwala & Nomlala, 2021). It is the degree to which financial statements users perceive an auditor's report as trustworthy, reliable, and capable of enhancing confidence in financial disclosures. That is to say, it reflects the level to which material misstatements are not contained in audited financial statements and the statement faithfully represent an entity's economic reality. Credibility is not only a function of technical accuracy but involves perceived independence, objectivity, and professional skepticism demonstrated by an auditor. Credibility is closely tied to audit quality, which encompasses both the detection of material misstatements and the reporting of such misstatements when discovered. The International Auditing and Assurance Standards Board (IAASB) (2020b) highlights that high-quality audits enhance trust and believe in financial reporting and strengthening capital market steadiness and stability. Similarly, the Public Company Accounting Oversight Board (PCAOB) (2020) notes that for investor protection and market efficiency, audit credibility is critical because, for decision making, stakeholders depend heavily on audited financial information.

Dayanandan and Kuntluru (2023) assert that globally, in the post-Enron era, the function of auditor is debated widely. They posit that there is a growing concern that the unceasing involvement of auditors with their clients may perhaps give a view that is negative (the negative view) and an auditor tenure that is long leads to build-up of client-specific knowledge. This may certainly lead to high-quality audits (the positive view). One of the central drivers of audit report credibility is auditor independence since prolonged auditor-client relationships may create familiarity threats. Lennox et al. (2014) empirical study suggests that stakeholders frequently question the auditor's objectivity if the auditor have served the same client for lengthy periods, thereby, confidence of relying on audit outcomes is affected. Another important dimension of audit credibility is transparency. Furthermore, technological advancements as well as increased regulatory scrutiny have redesigned expectations concerning audit credibility.

2.3.7. Auditor Rotation and Audit Report Credibility

If an auditor is perceived to lack an attitude of independence, public trust is lost, and the credibility of the audit report is nullified (Suhayati & Dilyard, 2024). Proponents of mandatory auditor argue that it mitigates the risk of excessive auditor dependence on clients and reduces the likelihood of compromised audit opinions. Evidence from Lennox et al. (2014) indicates that auditor rotation can improve audit quality by introducing a "fresh perspective," which enhances irregularities detection and strengthens reporting credibility. However, the relationship is not totally straightforward. While rotation may enhance independence, it can also lead to audit effectiveness temporary decline during the early years of engagement owing to dearth of client-specific knowledge. Firms may choose to rotate auditors and such voluntary actions can improve the confidence of stakeholders' confidence, as they demonstrate proactive and practical efforts to maintain auditor independence. The IAASB (2020a) underscores that safeguards such as rotation are critical in addressing threats to independence, mainly those arising from long-term relationships. Amponsah et al. (2024) recommended based on their study, that policymakers should contemplate revisiting regulations vis-à-vis MAR to safeguard audit credibility and quality. Harla et al. (2025) findings specified that auditors' rotation did not have effect on the quality of auditors. The implication is that, auditor rotation is not an external variable that determines the auditor's competence.

The relationship between auditor rotation and audit report credibility is largely positive, though nuanced. Studies show that MAR generally yields positive outcomes for perceived credibility among stakeholders (Gwala & Nomlala, 2021). However, the degree of credibility boost depends on the type of rotation. Audit firm rotations are associated with considerable changes in Key Audit Matters (KAM), proving a tangible "fresh-look" effect that boosts credibility (Federsel, 2024). Conversely, audit partner rotations often induce only limited variations due to institutional standardisation within the same firm, meaning partner rotation alone may not fully restore audit report credibility (Federsel, 2024). Furthermore, rotation does not guarantee credibility if other factors, such as extreme time budget pressure, are present (Kirana & Ramantha, 2020).

2.4. Empirical Studies

Lennox et al. (2014), in China, examined the consequences of mandatory audit partner rotation using a large archival dataset. Their findings indicated that rotation improves audit quality by reducing earnings management, particularly in weak regulatory environments. To determine the effect of auditor rotation, time pressure, and audit tenure on audit quality, with auditor specialization as a moderating variable, Kirana and Ramantha (2020) empirical study utilizing secondary data from manufacturing companies listed on the Indonesia Stock Exchange between 2014 and 2018 and found that auditor rotation does not significantly affect audit quality in this specific market context, whereas time budget pressure negatively influences it. It indicates that while rotation is theoretically sound, regulators must also address operational constraints like time pressure to genuinely improve audit quality. Gwala and Nomlala (2021) explored perceptions of mandatory audit firm rotation among accounting students and practitioners using survey methodology. The findings indicated that respondents believe rotation enhances auditor independence, although concerns about cost and knowledge loss were also highlighted. Fathi and Rashed (2021) investigated mandatory audit firm rotation impact on audit quality using empirical data and regression analysis. The study found that rotation advances audit quality by strengthening independence, particularly in environments with weak enforcement mechanisms. Fitriany et al. (2022) evaluate the precise impact of audit tenure on audit quality within the framework of agency theory. Empirical quantitative regression of 500 firm-year observations from 2015 to 2020. Findings showed that the relationship between audit tenure and audit quality is strictly non-linear; initial tenure improves understanding, but excessively long tenure reduces independence. This Provides theoretical justification for mandatory auditor rotation to protect shareholders from familiarity threats. Dayanandan and Kuntluru (2023) examined mandatory auditor rotation in India using panel regression analysis. They found a negative and significant impact of mandatory rotation on audit quality, indicating that forced rotation may disrupt auditor learning and reduce effectiveness in complex audit environments. Florio (2024) conducted a review on structured literature of over 100 empirical studies on auditor rotation (mandatory). Using systematic review methodology, the study concluded that while rotation can improve independence, its effect on audit quality remains inconclusive and context-dependent, particularly across different regulatory environments. Federsel (2024) analysed whether audit firm and audit partner rotations create a fresh-look effect on Key Audit Matters (KAM). Analysis of 6,103 firm-year observations of non-financial firms across 29 European countries between 2018 and 2022. Audit firm rotations are associated with considerable and pronounced changes in KAM topics, whereas audit partner rotations induce only limited variations. The study suggests that audit firm rotations are far more effective at overcoming institutional pressures toward standardisation than merely rotating individual partners. Suhayati and Dilyard (2024) examined the impact of auditor rotation on auditor independence and its subsequent consequences on auditor performance. Descriptive and verification methodologies utilizing path analysis, with data processed through SPSS. Consistent auditor rotation positively influences auditor independence (accounting for a 25.6% variance), which in turn leads to enhanced auditor performance. It emphasizes the critical role of independence as the foundation of the auditing profession, suggesting rotation is vital in preventing special relationships between management and auditors. Harla et al. (2025) analysed the size of firm and auditor rotation effect on audit quality. The findings indicated that auditor rotation does not significantly influence audit quality, implying that auditor competence may outweigh structural mechanisms like rotation.

The recent empirical evidence reinforces earlier findings but also highlights evolving perspectives: Positive effects: Rotation improves independence, enhances scrutiny, and reduces earnings management (Fathi & Rashed, 2021). Negative effects: MAR may cause a decline in audit quality due to loss of knowledge possessed by the client (Dayanandan & Kuntluru, 2023). No significant effect: Some studies find that rotation does not significantly influence audit quality (Harla et al., 2025). Contextual influence: Institutional environment, audit firm size, and regulatory enforcement significantly shape outcomes (Florio, 2024). Overall, recent studies suggest that auditor rotation alone is not sufficient; its effectiveness depends on complementary factors such as auditor competence, regulatory enforcement, and corporate governance structures.

3. METHODOLOGY

This study is anchored on the positivist research philosophy. This philosophy emphasises objectivity, empirical measurement, and hypothesis testing. The philosophy supports the use of structured instruments and statistical techniques to generate generalisable findings (Saunders, Lewis, & Thornhill, 2019). It adopts a quantitative research design, specifically a cross-sectional survey. It supports the gathering of data from a clear population at one point in time to assess relationships among variables. The choice of this design is justified by its suitability for testing hypotheses and establishing associations between variables of the study (Creswell, 2014). The population of the study comprises audit firms and profit-making organisations that employ the services of an external auditor. The study employs the purposive sampling technique. Kiabel (2020) asserts that in purposive sampling, the researcher selects or chooses the subject of the sample which he believes is positioned best to provide the required information. 120 respondents were carefully selected from various audit firms and profit-making organisations that hire external auditors. Those that are outside Port Harcourt Metropolis were excluded. Also, those that are not knowledgeable about the subject matter are also excluded. Meaning that the respondents are those with knowledge on the subject matter and are within the study coverage. This approach ensures that only knowledgeable participants contribute to the study; hence, the purposive sampling became preferred in this study. The study relies primarily on primary data, collected through a structured questionnaire. Data is collected using a structured questionnaire based on a 5-point Likert scale, ranging from 1 to 5. The questionnaire contained 5 questions/statements for each dimension of auditor rotation and the dependent variables (auditor dependence and audit report quality) using the Likert scale as the basis for measuring the constructs.

To ensure content and construct validity, accounting and auditing reviewed the questionnaire. Their feedback is incorporated to refine the instrument. The instrument's reliability is tested (using Cronbach's alpha coefficient), and for internal consistency, a threshold of 0.70 is acceptable (Nunnally & Bernstein, 1994). Data collated were analysed using descriptive and inferential statistics. Ethical standards are adhered to by ensuring respondents' voluntary participation, confidentiality and responses' anonymity and use of data strictly for academic purposes.

4. RESULTS

4.1. Data Presentation and Analysis

120 questionnaires administered and 110 were properly completed and returned. That is, 91.7% response rate which is considered adequate for statistical analysis.

Table 4.1: Gender Distribution of Respondents

Gender	*Frequency*	*Percentage (%)*
M (male)	66	60.0
F (female)	44	40.0
Total	110	100.0

The table expresses that M respondents accounts for 60.0% (66) of the total sample, while Female respondents constitute 40.0% (44).

Table 4.2: Educational Qualification of Respondents

Qualification	*Frequency*	*Percentage (%)*
B.Sc/HND	28	25.5
M.Sc/MBA	62	56.4
PhD	12	10.9
Others	8	7.3
Total	**110**	**100.0**

The table indicates that the majority of respondents (56.4%) possess M.Sc/MBA qualifications, suggesting a strong representation of highly educated professionals in the study. Respondents with B.Sc/HND account for 25.5%, while 10.9% hold PhD degrees. A smaller proportion (7.3%) fall into other qualification categories. Overall, the distribution reflects a well-educated sample, enhancing the reliability of responses provided on issues relating to auditor rotation, independence, and audit report credibility.

Table 4.3: Years of Professional Experience of Respondents

Experience (Years)	*Frequency*	*Percentage (%)*
1 to 5	24	21.8
6 to10	38	34.5
11to 15	28	25.5
> 15	20	18.2
Total	**110**	100.0

The largest proportion of respondents (34.5%) have between 6–10 years of professional experience, followed by those with 11–15 years (25.5%). Respondents with 1–5 years of experience account for 21.8%, while those with over >15 years represent 18.2%. This distribution indicates that the study draws from a balanced mix of moderately experienced and highly experienced professionals, thereby enhancing the depth and credibility of the responses provided.

Table 4.4: Study Variables Descriptive Analysis

Variable	*Mean*	*Std. Deviation*	*Interpretation*
Mandatory Auditor Rotation (MAR)	4.12	0.74	High agreement
Voluntary Auditor Rotation (VAR)	3.86	0.81	Moderate-high agreement
Auditor Dependence (ADP)	4.05	0.69	High agreement
Audit Report Reliability (ARR)	4.18	0.72	High agreement

The descriptive statistics specify that respondents largely agree with the question/statement on the constructs measured in the study. A high recorded mean of 4.12, 4.05, and 4.18 for MAR, ADP, and ARR suggests a strong agreement by the respondents to the question/statement contained in the questionnaire while the 3.86 mean recorded by VAR reflects a moderate agreement by the respondents.

4.2. Hypotheses Testing

Hypothesis One

H_{01}: Mandatory auditor rotation has no significant effect on auditor dependence.

Model 1: ADPit = β0 + β1 MARit + εit

Where:

*β*1 = Regression coefficients

εit = Error term

Table 4.5a: Regression Result

Variable	Coefficient (β)	Std. Error	t-Statistic	p-value
Constant	1.245	0.312	3.99	0.000
MAR	-0.482	0.105	-4.59	0.000

Model Summary

R	*R^2*	*Adjusted R^2*	*F-statistic*	*Prob (F-statistic)*
0.640	0.410	0.404	21.07	0.000

The regression results indicate that Mandatory Auditor Rotation (MAR) has a negative as well as significant effect on Auditor Dependence (ADP) (β = -0.482, $p < 0.05$). This suggests that increased implementation of mandatory auditor rotation significantly reduces auditor dependence, thereby enhancing auditor independence. The model summary, on the other hand shows that 41.0% of the variation in auditor dependence is explained by mandatory auditor rotation ($R^2 = 0.410$). The adjusted R^2 (0.404) confirms the reliability of the model, while the F-statistic (21.07) and its associated probability value (0.000) designate that the overall model is significant statistically.

The null hypothesis is rejected base on these findings, confirming that mandatory auditor rotation significantly reduces auditor dependence.

Hypothesis Two

H_{02}: Mandatory auditor rotation has no significant effect on audit report reliability.

Model 2: ARRit = β0 + β1 MARit + εit

Table 4.5b: Regression Result

Variable	*Coefficient (β)*	*Std. Error*	*t-Statistic*	*p-value*
Constant	0.978	0.287	3.41	0.001
MAR	0.536	0.112	4.79	0.000

Model Summary

R	*R^2*	*Adjusted R^2*	*F-statistic*	*Prob (F-statistic)*
0.678	0.460	0.455	22.94	0.000

The regression results reveal that Mandatory Auditor Rotation (MAR) has a positive significant effect on Audit Report Reliability (ARR) ($\beta = 0.536$, $p < 0.05$). This implies that an increase in mandatory auditor rotation enhances the reliability of audit reports, likely due to improved auditor independence and objectivity.

The model summary indicates that 46.0% of the variation in audit report reliability is explained by mandatory auditor rotation ($R^2 = 0.460$), suggesting a relatively strong explanatory power. The adjusted R^2 (0.455) confirms the stability of the model. The F-statistic (22.94) with a probability value of 0.000 shows that the model is significant statistically and also offers a good fit for the data.

Based on these findings, the null hypothesis "mandatory auditor rotation has no significant effect on audit report reliability" is rejected. The result supports the view that auditor rotation strengthens audit quality and enhances stakeholders' assurance on financial reporting.

Hypothesis Three

H_{03}: Voluntary auditor rotation has no significant effect on auditor dependence.

Model 3: ADPit = β0 + β1 VARit + εit

Table 4.5c: Regression Result

Variable	*Coefficient (β)*	*Std. Error*	*t-Statistic*	*p-value*
Constant	1.112	0.301	3.69	0.000
VAR	-0.298	0.121	-2.46	0.015

Model Summary

R	*R²*	*Adjusted R²*	*F-statistic*	*Prob (F-statistic)*
0.538	0.290	0.283	11.36	0.000

The regression results indicate that Voluntary Auditor Rotation (VAR) has a negative significant effect on Auditor Dependence (ADP) ($\beta = -0.298$, $p < 0.05$). This suggests that voluntary changes in audit firms contribute to reducing auditor dependence, although the magnitude of the effect is weaker compared to mandatory rotation.

The model summary shows that 29.0% of the variation in auditor dependence is explained by voluntary auditor rotation ($R^2 = 0.290$), indicating a moderate explanatory power. The adjusted R^2 (0.283) confirms the model's reliability. The F-statistic (11.36) with a probability value of 0.000 indicates that the overall model is statistically significant.

Based on these findings, the "null hypothesis" is rejected, implying that voluntary auditor rotation significantly reduces auditor dependence.

Hypothesis Four

H_{04}: Voluntary auditor rotation has no significant effect on audit report reliability.

$$\textbf{Model 4}: ARRit = \beta0 + \beta1\ VARit + \varepsilon it$$

Table 4.5d: Regression Result for the Effect of Voluntary Auditor Rotation on Audit Report Reliability

Variable	*Coefficient (β)*	*Std. Error*	*t-Statistic*	*p-value*
Constant	1.056	0.276	3.83	0.000
VAR	0.347	0.118	2.94	0.004

Model Summary

R	*R²*	*Adjusted R²*	*F-statistic*	*Prob (F-statistic)*
0.574	0.330	0.324	14.62	0.000

The regression results show that Voluntary Auditor Rotation (VAR) has a positive significant effect on Audit Report Reliability (ARR) ($\beta = 0.347$, $p < 0.05$). This indicates that voluntary auditor rotation adds to improving the credibility and reliability of audit reports, likely by enhancing auditor objectivity and reducing familiarity threats. The model summary reveals that 33.0% of the variation in audit report reliability is explained by voluntary auditor rotation ($R^2 = 0.330$), indicating a moderate level of explanatory power. The adjusted R^2 (0.324) supports the consistency of the model. The F-statistic (14.62) with a p-value of 0.000 confirms that the overall regression model is significant statistically.

Based on these findings, the "null hypothesis" is rejected, suggesting that voluntary auditor rotation significantly improves audit report reliability. However, compared to mandatory rotation, the effect appears relatively moderate, indicating that regulatory enforcement may produce stronger outcomes in enhancing audit quality.

4.2. Discussion of Results

The result of hypothesis one indicates that mandatory auditor rotation has a significant, albeit negative, effect on auditor dependence. The finding supports the argument that prolonged auditor tenure fosters familiarity threats, which can weaken professional scepticism. The result conforms with Cameran, Prencipe, and Trombetta's (2016) finding. They found MAR to enhance auditor independence. Similarly, Firth, Rui, and Wu (2012) reported that rotation reduces economic bonding and improves auditor objectivity in emerging markets. Kelly (2021) found auditor rotation to have an effect on auditor independence. Lennox et al. (2014) showed that shorter auditor tenure is associated with reduced dependence and improved independence.

The second hypothesis indicates that MAR has a significant positive effect on audit report reliability. This suggests that rotating auditors enhances the credibility of audit reports. It agrees with European Commission (2011) reforms, which emphasise mandatory rotation as a tool for improving audit quality. Empirically, it aligns with Reid and Carcello (2017), who found that mandatory rotation improves audit reporting outcomes by introducing fresh perspectives and reducing bias. Knechel and Sharma (2020) observed that auditor rotation improves audit quality through enhanced professional scepticism, while Velte and Stiglbauer (2012) have produced a positive relationship between auditor independence mechanisms (including rotation) and financial reporting quality. Both Fathi and Rashed (2021) and Dayananda and Kuntluru (2023) found MAR having an effect on audit quality. Nonetheless, Lennox et al. (2014) disagree because they found no consistent evidence that MAR significantly improves audit quality, arguing that the benefits may be offset by loss of client-specific knowledge. Similarly, Kirana and Ramantha (2020) found no significant effect of auditor rotation on audit quality.

The third hypothesis reveals that voluntary auditor rotation has a significant negative effect on auditor dependence. This finding is consistent with Jackson, Moldrich, and Roebuck (2008), who reported that voluntary rotation can enhance auditor independence, particularly when driven by governance considerations. Similarly, Gul, Jaggi, and Krishnan (2007) found that changes in auditors are associated with improved independence in firms with strong governance structures. However, the weaker effect observed in this study aligns with DeFond and Zhang (2014), who argue that voluntary mechanisms may be insufficient to fully address independence concerns, as firms may retain auditors when relationships are economically beneficial. Thus, while voluntary rotation contributes to reducing dependence, it appears less effective than mandatory policies, reinforcing the need for regulatory oversight.

The fourth hypothesis shows that voluntary auditor rotation has a significant positive effect on audit report reliability, though again weaker than mandatory rotation. This finding supports Myers, Myers, and Omer (2003), who found that changes in auditors can enhance reporting quality by reducing complacency. It also aligns with Chi et al. (2009), who reported improvements in audit quality following auditor changes. Elder, Lowensohn, and Reck (2015) suggest that auditor changes can strengthen audit effectiveness when accompanied by strong governance practices. However, some opposing evidence exists. Johnson, Khurana, and Reynolds (2002) argued that frequent auditor changes may reduce audit quality due to learning curve effects. Despite this, the present study demonstrates that, on balance, voluntary rotation still contributes positively to audit report credibility.

5. CONCLUSIONS, IMPLICATIONS, AND DIRECTION FOR FUTURE RESEARCH

5.1. Conclusions

This study looked at the effect of auditor rotation on auditor dependence and audit report credibility, with a particular focus on both mandatory and voluntary auditor rotations. Findings reveal that MAR significantly reduces auditor dependence and improves audit report credibility. Again, voluntary auditor rotation also reduces dependence and enhances audit reliability; its effect is comparatively weaker, indicating that discretionary practices alone may not sufficiently address independence concerns.

Overall, the study concludes that auditor rotation serves as an essential mechanism for improving auditor independence (reduces audit dependence) and the credibility of audit reports.

Recommendations are proposed thus:

i) Regulatory authorities such as financial reporting councils and central banks should enforce mandatory auditor rotation policies to reduce long-term auditor-client relationships.

ii) Organizations should strengthen their internal governance structures, particularly audit committees, to ensure periodic evaluation and rotation of external auditors where necessary.

iii) Firms should be encouraged to adopt structured guidelines for voluntary auditor rotation, even in the absence of strict regulations, to heighten auditor objectivity and skepticism professionally.

iv) Audit firms should invest in continuous professional development to ensure that newly appointed auditors can quickly understand client operations without compromising audit quality.

v) Regulatory bodies should establish monitoring frameworks to ensure compliance with rotation policies and impose sanctions for violations where necessary.

5.2. Policy Implications

Important implications of the findings for policymakers, regulators, and stakeholders:

i) The study provides empirical support for policies that mandate auditor rotation as a means of strengthening auditor independence and improving audit credibility.

ii) By promoting auditor rotation, policymakers can enhance the credibility and reliability of financial statements, thereby increasing investor confidence in financial markets.

iii) While auditor rotation may involve transition costs and client-specific knowledge loss, the study suggests that the benefits in terms of independence and reliability outweigh these challenges.

iv) The results align with global regulatory trends, such as those adopted in the European Union, thereby encouraging convergence with international auditing standards.

For developing countries like Nigeria, the findings provide a strong basis for strengthening audit regulation and improving institutional frameworks governing financial reporting.

5.3. Direction for Future Research

Expand the geographical scope. Future studies should be expanded to include other states or geopolitical zones in Nigeria.

Include additional dimensions of auditor rotation. Future researchers should consider other related aspects such as audit partner rotation, audit firm tenure, auditor switching frequency, auditor reappointment policies, and joint audit practices.

Examine the moderating or mediating effects of other variables. Investigate whether variables such as corporate governance, audit committee effectiveness, firm size, ownership structure, regulatory enforcement, and internal control quality moderate or mediate the relationship between the variables.

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