



## AUDIT INDEPENDENCE AND FINANCIAL PERFORMANCE OF QUOTED INSURANCE COMPANIES IN NIGERIA

Cletus Iheonunekwu & Prof. C. C. Ebere

<sup>1,2</sup>*Accountancy Department, Faculty of Management Sciences, University of Port Harcourt, Choba, Rivers State. Nigeria.*

---

### KEY WORDS

*Audit independence, Audit tenure, Audit fee, financial performance, Nigeria insurance sector.*

### ABSTRACT

*This paper investigates the effect of audit independence on the financial performance of quoted insurance companies in Nigeria. Audit independence was measured using audit tenure and audit fee, while financial performance was evaluated through net profit margin (NPM), return on assets (ROA), and earnings per share (EPS). Secondary data were extracted from the audited annual reports of 19 insurance companies listed on the Nigerian Exchange Group, covering the period from 2012 to 2023. The study employed descriptive statistics, correlation analysis, and panel least squares regression to analyze the relationships among variables, with model selection guided by the Hausman test. The findings revealed that audit fee had a positive and statistically significant effect on NPM and ROA, implying that higher audit investments enhance profitability and asset efficiency through more rigorous oversight and greater stakeholder trust. In contrast, audit tenure exhibited insignificant relationships with all financial performance indicators, suggesting that extended auditor engagements neither significantly enhance nor diminish financial outcomes. For EPS, both audit tenure and audit fee showed statistically insignificant effects, indicating that market-based or internal firm factors may play a stronger role in influencing shareholder earnings. The study concludes that audit independence remains critical to ensuring credible reporting and long-term investor confidence. It recommends that regulators encourage transparent audit fee structures, enforce reasonable auditor tenure limits, and promote periodic quality reviews to maintain independence without sacrificing audit effectiveness.*

---

### Background

Maintaining the independence and integrity of external audits is essential to ensuring financial transparency and protecting stakeholder interests (Elewa & El-Haddad, 2019). Insurance companies manage complex portfolios involving high-risk investments, future claims, and long-term liabilities that require accurate financial

reporting and independent verification (Boyko, 2011; DePamphilis, 2011). External audits serve as a vital mechanism to reduce information asymmetry by objectively evaluating and authenticating financial statements, thus providing investors and regulators with confidence in a company's financial disclosures (Rahman, Meah, & Chaudhory, 2019).

Audit independence is a critical characteristic of audit quality which ensures that auditors can perform their duties without undue influence or conflicts of interest (Khan & Subhan, 2019). Two critical determinants of audit independence—audit firm rotation and audit fees—play a decisive role in shaping the quality of audits and, consequently, a firm's financial performance. Empirical studies have shown that high-quality audits enhance profitability and operational efficiency by promoting accurate financial reporting and reducing agency problems (Soyemi, Olufemi, & Adeyemi, 2020; Khan & Subhan, 2019).

Audit firm rotation involves the periodic replacement of audit firms or lead partners to prevent familiarity threats and maintain professional skepticism. Regular rotation injects fresh perspectives, reduces complacency, and promotes impartial financial examinations (Enekwe, Nwoha, & Udeh, 2020). In Nigeria, the Securities and Exchange Commission (SEC) has mandated rotation policies to reinforce auditor independence and enhance public confidence in financial reporting (Mustapha, Rashid, Ado, & Ademola, 2019b). For insurance companies, which operate under strict regulatory oversight, periodic rotation ensures that auditors approach financial statements with renewed scrutiny, helping detect misstatements, compliance breaches, and operational inefficiencies (Bakare, 2019).

Audit fees also exert a significant influence on audit quality and independence. Adequately structured fees enable auditors to allocate sufficient time, personnel, and technical resources necessary for thorough examinations (Mustapha et al., 2019b; Amahalu, 2020). When audit fees are set at appropriate levels, auditors can perform comprehensive analyses that enhance the credibility of financial statements. However, excessively high or low fees can threaten independence—high fees may create economic dependence on the client, while low fees may limit audit scope and depth (Elewa & El-Haddad, 2019). In the insurance sector, where precision in reporting reserves and liabilities is critical, balanced audit fees are essential to maintaining both audit quality and auditor impartiality.

Reinforcing independence through rotation and fee regulation aid external audits safeguard against managerial opportunism and financial manipulation, consistent with the principles of agency theory (Soyemi, Olufemi, & Adeyemi, 2020). Independent audits provide objective verification that aligns managerial actions with shareholder interests and ensures that reported profits, assets, and earnings are reliable indicators of performance. This alignment supports stronger financial performance outcomes. In the insurance industry, maintaining high standards of auditor independence is particularly critical due to the sector's vulnerability to misreporting and regulatory infractions. Strengthening audit independence through structured rotation and fair audit compensation not only promotes transparency and

accountability but also enhances the confidence of investors, regulators, and policyholders.

### **Statement of Problem**

Audited financial statements provide a foundation for decision-making by investors, regulators, and policyholders. They offer critical insights into an organization's profitability, solvency, and growth prospects (Akther & Xu, 2020; Velte & Issa, 2019). In the Nigerian insurance sector, these reports are particularly important due to the complex nature of insurers' liabilities and the regulatory oversight required to protect policyholders. However, audit independence—a central determinant of audit quality—is frequently challenged by factors such as prolonged auditor-client relationships and fee dependence (Mustapha et al., 2019b; Khanh & Nguyen, 2018). When independence is compromised, audits may fail to detect misstatements, leading to misinformation, reduced investor confidence, and potential financial instability.

Two key elements that influence audit independence are audit firm rotation and audit fees. Regular rotation of audit firms mitigates the risk of overfamiliarity and complacency, ensuring that auditors maintain objectivity and professional skepticism (Enekwe, Nwoha, & Udeh, 2020). Yet, in practice, many Nigerian firms retain the same auditors for extended periods, raising concerns about compromised independence. Similarly, audit fees play a crucial role in maintaining auditor impartiality. Excessively low fees may restrict audit scope, while high fees may create economic dependence and bias (Elewa & El-Haddad, 2019). These issues are particularly significant in insurance companies where the accuracy of financial reporting is vital for both regulatory compliance and policyholder protection.

Regulators such as the National Insurance Commission (NAICOM) rely on credible audit reports to monitor the solvency and stability of insurers (Iliemena & Okolocha, 2019). When audit independence is weakened, undetected misstatements or hidden risks may jeopardize regulatory oversight and erode confidence in the sector. Policyholders, in turn, may lose faith in the ability of insurers to honor claims, discouraging participation in insurance products (Rahman, Meah, & Chaudhory, 2019).

Despite global recognition of audit independence as a determinant of audit quality, empirical research examining its specific impact on the financial performance of Nigerian insurance firms remains limited. This study seeks to address this gap by investigating how audit firm rotation and audit fees—key proxies for auditor independence—affect financial performance indicators of quoted insurance companies in Nigeria.

### **Aim and Objectives**

The broad aim of this study is to evaluate the impact of audit independence on financial performance of quoted insurance companies in Nigeria. The specific objectives of the research are to:

- Analyze the relationship between audit tenure and the Net Profit Margin (NPM) of quoted insurance companies in Nigeria
- Determine the effect of audit tenure on the Return on Assets (ROA) of quoted insurance companies in Nigeria.
- Examine the impact of audit tenure on the Earnings per Share (EPS) of quoted insurance companies in Nigeria.
- Analyze the relationship between audit fee and the Net Profit Margin (NPM) of quoted insurance companies in Nigeria.
- Assess the effect of audit fee on the Return on Assets (ROA) of quoted insurance companies in Nigeria.
- Determine the influence of audit fee on the Earnings per Share (EPS) of quoted insurance companies in Nigeria.

### **Research Hypotheses**

H0<sub>1</sub>: Audit tenure has no significant relationship with the Net Profit Margin (NPM) of quoted insurance companies in Nigeria.

H0<sub>2</sub>: Audit tenure has no significant effect on the Return on Assets (ROA) of quoted insurance companies in Nigeria.

H0<sub>3</sub>: Audit tenure has no significant impact on the Earnings per Share (EPS) of quoted insurance companies in Nigeria.

H0<sub>4</sub>: Audit fee has no significant relationship with the Net Profit Margin (NPM) of quoted insurance companies in Nigeria.

H0<sub>5</sub>: Audit fee does not significantly affect the Return on Assets (ROA) of quoted insurance companies in Nigeria.

H0<sub>6</sub>: Audit fee has no significant influence on the Earnings per Share (EPS) of quoted insurance companies in Nigeria.

### **Audit Independence**

Auditor independence is a cornerstone of external audit quality, as it ensures that auditors remain impartial and free from conflicts of interest. Independence can be threatened when auditors develop close relationships with their clients, engage in non-audit services, or rely heavily on audit fees from a single client (Rodríguez, & Alegría, 2012). Regulatory bodies such as the Public Company Accounting Oversight Board (PCAOB) and the International Auditing and Assurance Standards Board (IAASB) have established strict guidelines to safeguard auditor independence and uphold audit integrity (PCAOB, 2021).

Audit independence is the ability of auditors to perform their duties without undue influence from management or external parties. It is a cornerstone of audit quality, ensuring that financial statements are fairly presented without bias (Sayyar, Basiruddin, Rasid, & Elhabib, 2015). Independent auditors enhance investor confidence by providing objective assessments of financial statements (Rompotis, & Balios, 2023). Threats to audit independence arise when auditors develop close relationships with clients, provide non-audit services, or rely heavily on fees from a

single client (Shamki, & Hussein, 2023). Regulatory frameworks, such as mandatory audit firm rotation and restrictions on non-audit services, aim to preserve auditor independence and uphold financial transparency (Phan, Lai, Le, & Tran, 2020).

### **Audit Tenure**

Audit tenure refers to the length of time an audit firm has been engaged with a client. A long audit tenure can enhance the auditor's understanding of the client's business, leading to improved audit quality (Rozario, 2019). Auditors with prolonged experience in an organization may be better equipped to identify financial misstatements and ensure compliance with regulations (Oladejo, & Yinus, 2020). However, prolonged audit tenure may also pose risks to auditor independence. Over time, auditors may develop close relationships with management, leading to reduced professional skepticism (Sayyar, Basiruddin, Rasid, & Elhabib, 2015). To mitigate these risks, some regulators recommend periodic audit firm rotation to maintain objectivity and prevent undue familiarity (Usang, & Salim, 2016).

### **Audit Fee**

Audit fee refers to the compensation paid to auditors for their services. The amount charged depends on factors such as firm size, audit complexity, and risk exposure (Novita, Nopiana, & Putri, 2022). Higher audit fees may be associated with greater audit effort and thorough risk assessments, potentially improving audit quality (Ojala, Niskanen, Collis, & Pajunen, 2014). Excessive dependence on a client's audit fees may threaten auditor independence, as firms may be reluctant to issue unfavorable audit opinions for fear of losing revenue (Shamki, & Hussein, 2023). Regulatory guidelines recommend transparency in audit fee disclosures to ensure fair competition and maintain audit integrity (Usang, & Salim, 2016).

### **Theoretical Framework**

The relationship between audit independence and corporate performance can be understood through institutional theory and signaling theory. Institutional theory posits that organizational practices, including auditor independence, are shaped by external pressures from regulations, norms, and societal expectations (Boshnak, 2021; Bratten, Causholli, & Sulcaj, 2022). In Nigeria, coercive pressures arise from auditing standards and regulatory oversight by bodies such as the FRCN and the Institute of Chartered Accountants of Nigeria (ICAN), which ensure compliance with International Standards on Auditing (ISA). Normative influences stem from professional training and ethical frameworks that promote auditor integrity and accountability (Singh et al., 2021). Mimetic isomorphism further drives firms to emulate independence-preserving practices, such as audit partner rotation and limitations on non-audit services (Toumeh et al., 2021; Phan, Lai, Le, & Tran, 2020). Collectively, these institutional mechanisms safeguard auditor impartiality, reduce conflict of interest, and promote the reliability of financial reporting, thereby improving investor trust and financial performance outcomes (Rana, Ahmed, Narayan, & Zheng, 2021).

Signaling theory complements this framework by emphasizing the communicative role of audit independence in mitigating information asymmetry. According to Connelly et al. (2025), signaling theory explains how independent audits act as credible signals of transparency, competence, and ethical conduct. Engaging independent auditors or implementing rotation policies conveys a firm's confidence in its financial integrity (Bakri, 2021; Elmashtawy et al., 2024). Such actions reduce investor uncertainty and strengthen capital market confidence. Conversely, excessive dependence on client fees or close auditor–management relationships send negative signals of compromised objectivity (Shamki & Hussein, 2023). Through credible signaling and institutional enforcement, auditor independence serves as both a regulatory safeguard and a strategic mechanism for enhancing firm value and performance.

### **Empirical Review**

The reviewed empirical studies collectively emphasize how factors such as auditor tenure, firm rotation, governance mechanisms, and professional conduct affect the auditor's ability to provide unbiased opinions and improve financial performance. Afifa, Saleh, and Al-Nadi (2024) examined the relationship between audit quality and integrated reporting (IR) quality in Jordan, using 430 company-year observations. Their findings revealed that audit tenure had no significant effect on IR quality, suggesting that prolonged engagement does not necessarily impair independence or reporting quality in the Jordanian context. However, the study found that audit quality reduces earnings management, indirectly strengthening the credibility of IR. These findings align with the broader argument that independence—while conceptually vital—interacts with other institutional and behavioral factors such as ethical culture and governance diversity to shape audit effectiveness.

Hegazy et al. (2023) explored how burnout determinants influence audit performance and quality among auditors in top auditing firms. Their structural equation modeling revealed that burnout significantly reduces both performance and audit quality, while role clarity enhances them. Although not a direct measure of independence, this study sheds light on an important behavioral dimension—auditor independence can be compromised when work-related stress and ambiguity impair objectivity and ethical judgment. This finding indicates that maintaining independence goes beyond regulatory compliance to include promoting a healthy organizational climates that support ethical soundness and professional scepticism.

Ozegbe and Jeroh (2022) focused on Nigerian firms and found a significant negative relationship between auditor independence and financial performance (ROA). The authors suggested that excessive caution or strained auditor-client relationships might increase costs or reduce operational flexibility, thereby lowering short-term performance. Nevertheless, they emphasized the importance of independence for ensuring long-term credibility and compliance. This nuanced finding adds depth to the independence debate, showing that the benefits of



independence may not always translate into immediate financial gains but instead uphold sustainable governance.

In contrast, Matoke and Omwenga (2016) demonstrated that auditor independence has a significant positive effect on the financial performance of Kenyan listed firms. Their results support the theoretical expectation that independent auditors enhance the reliability of financial statements, which can attract investors and improve firm reputation. Similarly, Farouk and Hassan (2014), studying Nigerian cement companies, found that auditor independence positively and significantly affects financial performance, with independence emerging as the stronger determinant compared to auditor size. These studies affirm that independence remains a fundamental driver of both audit credibility and firm performance.

Soyemi, Afolabi, and Obigbemi (2021) contributed to this discourse by showing that corporate governance variables—especially board independence and gender composition—can influence external audit quality. Interestingly, their findings revealed that higher board independence and female representation correlated with lower audit quality in Nigerian firms. This counterintuitive outcome suggests potential governance–independence conflicts, where formal independence mechanisms may coexist with informal relational pressures that constrain auditor autonomy.

From a perception-based perspective, Sulaiman, Shahimi, and Nashtar Singh (2019) investigated auditors' views on audit quality attributes. They found that adherence to professional standards, sufficient evidence gathering, and internal quality review were key indicators of independence in practice. Their study emphasizes the human and procedural foundations of independence—consistent professional standards, ethical training, and team competency are vital for maintaining objectivity and client trust.

Complementing these findings, Daniels and Booker (2011) demonstrated that audit firm rotation enhances perceived auditor independence from the viewpoint of loan officers, though it does not necessarily improve perceived audit quality. This distinction between independence perception and actual quality suggests that regulatory policies such as rotation may improve stakeholder confidence without necessarily improving audit outcomes. Likewise, Adeyemi, Okpala, and Dabor (2012) found that the provision of non-audit services undermines auditor independence, reinforcing the need for regulatory restrictions separating advisory and audit roles to safeguard objectivity.

The reviewed studies point to several key insights. First, auditor independence—whether assessed through tenure, rotation, or behavioral integrity—plays a vital role in improving audit credibility and financial reporting reliability. Second, independence interacts with governance structures, auditor well-being, and institutional culture and may strengthen or weaken its effect. Third, independence reforms (e.g., mandatory rotation, prohibition of non-audit services) enhance public confidence.

**Methodology**

This research adopts an ex post facto research design, suitable for analyzing relationships between audit independence—proxied by audit firm rotation and audit fee—and the financial performance of quoted insurance firms in Nigeria. Since both audit and performance data are historical and non-manipulable, this design allows the researcher to draw inferences from observed trends without experimental intervention (Kerlinger & Rint, 1986). The approach ensures objectivity, realism, and external validity, as it examines existing financial reports rather than simulated data.

The population of interest includes all 17 insurance companies listed on the Nigerian Exchange (NGX). Due to the relatively small number of firms, the study uses a census sampling approach, including all available firms. However, data accessibility permits a total of 19 companies covering a 12-year period (2014–2023), resulting in 228 firm-year observations. This provides a comprehensive longitudinal dataset capable of capturing industry patterns over time.

The study makes use of secondary data derived from audited financial statements, annual reports, and the NGX Factbook. These sources provide reliable information on both the independent variables—Audit Fee (FEEAUDIT) and Audit Firm Tenure (AUDITENUR)—and the dependent variables representing financial performance, which are Net Profit Margin (NPM), Return on Assets (ROA), and Earnings per Share (EPS). The combination of these measures ensures a multidimensional assessment of firm performance.

To test the hypothesized relationships, the Panel Least Squares (PLS) regression analysis is used, preceded by diagnostic tests such as the unit root test to confirm data stationarity. The functional model for this paper is specified as:

Financial Performance =  $f(\text{Audit Fee, Audit Firm Rotation})$

The model is expressed in econometric form as follows:

$$\text{NPM} = a + \beta_1 \text{FEEAUDIT} + \beta_2 \text{AUDITENUR} + \beta_3 \text{SIZE} + \mu$$

$$\text{ROA} = a + \beta_1 \text{FEEAUDIT} + \beta_2 \text{AUDITENUR} + \beta_3 \text{SIZE} + \mu$$

$$\text{EPS} = a + \beta_1 \text{FEEAUDIT} + \beta_2 \text{AUDITENUR} + \beta_3 \text{SIZE} + \mu$$

Where:

FEEAUDIT = Audit Fee

AUDITENUR = Audit Firm Tenure

SIZE = Company Size (control variable)

$\mu$  = Error term

The a priori expectation is that both audit independence indicators have a positive relationship with financial performance ( $\beta_1, \beta_2 > 0$ ). Higher audit fees are presumed to reflect greater audit effort and quality, while periodic firm rotation enhances auditor independence and objectivity.

**Data and Results**

**Table 1: Descriptive Statistics**

Variable	Mean	Median	Maximum	Minimum	Std. Dev.	Obs.
ROA	0.0691	0.0417	0.5515	0.0003	0.0769	228



NPM	0.6713	0.6500	1.5400	0.0100	0.2611	228
EPS	1.2245	0.2800	43.1100	-168.5800	15.4444	228
AUDITENUR	3.2368	3	9	1	1.8456	228
FEEAUDIT	367070.800	13575	11900000.00	2100.00	1601482.00	228
SIZE	612000000.000	14834511	2.40000E+10	1637726.00	2770000000.00	228

The descriptive statistics in table 1 indicates that the average Return on Assets (ROA) is 6.91%, with a maximum of 55.15% and a minimum of 0.03%, indicating a wide dispersion in asset profitability across firms. The Net Profit Margin (NPM) has a mean value of 67.13%, suggesting generally healthy profit margins, though the range from 1% to 154% and a standard deviation of 26.11% indicates considerable variability in net profit margin. Earnings per Share (EPS) show significant dispersion, with a mean of 1.22 and a standard deviation of 15.44, driven by a large maximum value (43.11) and a very low minimum (-168.58), indicating the possible presence of outliers or loss-making firms. Audit Tenure (AUDITENUR) averages about 3.24 years, with a maximum tenure of 9 years, suggesting moderate continuity in auditor engagement. Average Audit Fee (FEEAUDIT) is approximately ₦367,070.80, with a substantial standard deviation of ₦1.6 million, pointing to large disparities in audit costs. Firm Size (SIZE), measured in currency, shows significant variation, with the mean around ₦612 million and a maximum value exceeding ₦24 billion.

**Table 2 Summary Unit Root Test Result**

<b>Variables</b>	<b>ADF-Fisher Chi-Square</b>	<b>ADF-Fisher Probability</b>	<b>Order of Integration</b>
NPM	57.2045	0.0455	I(0)
ROA	63.1117	0.0068	I(0)
EPS	121.565	0.0000	I(0)
AUDITENUR	50.6149	0.0327	I(0)
FEEAUDIT	76.0294	0.0296	I(0)
SIZE	63.2688	0.0068	I(0)

Table 2 presents the unit root test results for all the variables under investigation. The Levin, Lin & Chu (LLC) test was used as the primary method, with supplementary test - ADF-Fisher providing robustness. From the table, the null hypothesis of a unit root is rejected for all variables at 1%, 5%, or 10% significance levels. This implies that all variables—including Audit Firm Size, Audit Tenure, and the financial performance indicators (NPM, ROA, and EPS) — are stationary at level, meaning no further differencing is needed. For example, the statistic for Return on Assets (ROA) is significant at the 1% level, confirming that ROA is stationary. The results confirm that the data series are appropriate for panel regression analysis without the risk of producing misleading relationships due to non-stationarity.

**Table 3: Panel EGLS Random Effects Regression Result: Net Profit Margin (NPM)**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.82978	0.28095	6.51279	0.00000
AUDITENUR	-0.11816	0.07975	-1.48166	0.13980
FEEAUDIT	0.24327	0.06926	3.51251	0.00050
SIZE	-0.28983	0.06074	-4.77209	0.00000

R-squared: 0.1129; F-statistic: 5.6510; Prob(F-statistic): 0.000063; Durbin-Watson stat: 1.800902

The panel EGLS random effects regression result in table 3 presents the influence of external audit quality indicators on Net Profit Margin (NPM) based on the Hausman Test's recommendation to use a random effects model (see appendix). Audit Fee (FEEAUDIT) has a positive and statistically significant effect on NPM (coefficient = 0.24327,  $p = 0.0005$ ), suggesting that higher audit fees are associated with better financial performance, potentially indicating more thorough or reputable audit services that enhance credibility and investor confidence. Audit Tenure show positive but statistically insignificant effects on NPM ( $p$ -values  $> 0.05$ ), implying that, within the study period, this variable did not have a discernible impact on profitability. Firm Size (SIZE) shows a strong negative and significant relationship with NPM (coefficient = -0.28983,  $p = 0.0000$ ), which may reflect the complexity and overhead costs associated with larger firms that reduce profitability margins. The R-squared value of 0.1129 indicates that approximately 11.3% of the variation in NPM is explained by the model, while the F-statistic (5.6510,  $p = 0.000063$ ) confirms that the model is jointly significant. The Durbin-Watson statistic of 1.80 suggests minimal autocorrelation in the residuals, supporting the reliability of the estimates.

**Table 4: Panel EGLS Random Effects Regression Results: Return on Assets (ROA)**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.164065	0.083801	1.957804	0.0515
AUDITENUR	0.03304	0.02835	1.165432	0.2451
FEEAUDIT	0.025721	0.022026	1.167784	0.2441
SIZE	-0.030941	0.01946	-1.590008	0.1133

R-squared: 0.0204; F-statistic: 0.922433; Prob(F-statistic): 0.4672; Durbin-Watson stat: 1.8298

From the regression results in Table 4, employed the Random Effects model as recommended by the Hausman test (see appendix). From the results, Audit Tenure ( $\beta = 0.03304$ ,  $p = 0.2451$ ) show positive but insignificant relationships with ROA, implying these audit practices may contribute positively to firm performance but not at a statistically meaningful level. Audit Fee ( $\beta = 0.02572$ ) also exerts a small, positive, and insignificant influence ( $p = 0.2441$ ), suggesting that higher audit investments are not significantly linked to improved asset returns. The control variable, Firm Size ( $\beta = -0.03094$ ), has a negative but statistically insignificant effect on ROA ( $p = 0.1133$ ),

which may reflect diminishing marginal returns as firms grow larger. The results suggest that while audit independence variables exhibit generally positive associations with ROA, none have a statistically significant effect. This may imply the need for stronger governance mechanisms or that other unobserved factors better explain variations in financial performance. The overall model fit is low, as indicated by the R-squared value of 0.0204, meaning only about 2% of the variance in ROA is explained by the included variables. The F-statistic of 0.922 and its associated p-value of 0.4672 indicate that the model is statistically insignificant at the 5% level, implying that the independent variables collectively do not significantly explain variations in ROA.

**Table 5: Panel Fixed Effects Estimation Regression Result: Earnings per Share (EPS)**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-36.82325	47.45703	-0.775928	0.4387
AUDITENUR	-2.050984	6.499984	-0.315537	0.7527
FEEAUDIT	8.133323	7.93861	1.024527	0.3068
SIZE	0.428482	6.382219	0.067137	0.9465

R-squared: 0.164639; F-statistic: 1.748075; Prob(F-statistic): 0.0223; Durbin-Watson stat: 2.390918

The regression results presented in Table 5 shows that Audit Tenure ( $b = -2.05$ ) has a negative coefficient, suggesting longer auditor-client relationships may slightly reduce EPS, though this effect is not statistically significant ( $p = 0.7527$ ), indicating limited influence. Audit Fee ( $b = 8.13$ ) displays a positive coefficient, implying that higher audit fees may relate to higher EPS, possibly due to better audit effort or firm reputation, but again, this is not statistically significant ( $p = 0.3068$ ). Firm Size ( $b = 0.43$ ) has a negligible and insignificant impact on EPS ( $p = 0.9465$ ), suggesting firm scale does not meaningfully influence earnings per share in this context. Despite individual insignificance of coefficients, the overall model is statistically significant at the 5% level (F-statistic = 1.748,  $p = 0.0223$ ), suggesting that the audit independence variables collectively influence EPS. The R-squared value of 0.1646 indicates that approximately 16.5% of the variation in EPS is explained by the model. The Durbin-Watson statistic of 2.39 suggests no serious autocorrelation. Overall, while individual audit quality metrics show limited statistical strength, the model confirms that audit-related factors do contribute to explaining variations in EPS across firms.

### Discussion of Findings

The study investigated how audit independence, measured through audit fee and audit tenure, influences the financial performance of quoted insurance companies in Nigeria, using Net Profit Margin (NPM), Return on Assets (ROA), and Earnings per Share (EPS) as performance indicators.

The regression results for audit fees revealed a statistically significant positive effect on NPM ( $b = 0.24327$ ,  $p < 0.001$ ), indicating that firms that pay higher audit fees

tend to achieve higher profitability. This finding suggests that investing in more comprehensive and higher-quality audits may enhance financial credibility, reduce misstatements, and improve transparency, which in turn boosts profitability. The result aligns with Afifa et al. (2024), who reported that well-resourced audits improve reporting quality and performance by constraining earnings manipulation. Similarly Matoke and Omwenga (2016) found that greater audit investment correlates with improved firm outcomes. However, others cautioned that the scope of audit engagement, rather than cost alone, determines value creation. The positive NPM result reinforces the argument that audit fees should be viewed as a strategic investment in governance quality rather than a financial burden (Hassan & Farouk, 2014). Nonetheless, the finding contrasts with Ugwu et al. (2020), who reported an insignificant negative relationship between audit fees and ROA. This indicates that higher audit spending does not automatically guarantee better performance, especially where audit resources are inefficiently utilized.

For ROA, the study found a positive but statistically insignificant relationship ( $b = 0.025721$ ;  $p > 0.05$ ). Although higher audit fees may marginally improve asset efficiency, the effect is not conclusive. This suggests that audit expenditure may indirectly influence asset utilization through improved control systems rather than directly affecting returns. Adeyemi et al. (2012) warned that high audit fees—particularly those including non-audit services—can impair independence and undermine audit quality. This suggests that while higher fees may reflect complex engagements, they could also create familiarity risks that weaken auditor objectivity. The mixed evidence implies that the fee-performance relationship depends on governance quality, audit regulation, and the nature of client-auditor relationships within the insurance sector.

The regression results for EPS showed a positive but statistically insignificant relationship ( $b = 8.133323$ ;  $p = 0.3068$ ), indicating that while higher audit fees may enhance investor confidence and reported earnings, their effect on shareholder value is weak. EPS is influenced by multiple factors—capital structure, dividend policy, and investor sentiment—that may dilute audit effects. Hassan and Farouk (2014) also reported that auditor independence influences performance more strongly than fee levels alone. Ozegbe and Jeroh (2022) observed that high audit fees do not consistently translate into better performance, particularly in jurisdictions with weak enforcement or concentrated ownership. However, Afifa et al. (2024) found that higher-quality audits, often associated with higher fees, enhance reporting credibility and investor trust—factors that may improve EPS over time. These contrasting findings reinforce the idea that the effectiveness of audit fees depends on contextual and institutional conditions.

For audit tenure, the regression results revealed a negative but statistically insignificant relationship with NPM, suggesting that prolonged auditor-client relationships do not necessarily enhance profitability. Extended tenures can reduce professional skepticism and impair independence due to over-familiarity. This agrees with Ugwu, Aikpitanyi, and Idemudia (2020), who found that extended audit

engagements were negatively related to firm performance. Conversely, some studies highlight potential benefits of longer auditor tenures. Matoke and Omwenga (2016) found that continuity can improve audit depth and understanding of client operations, leading to better reporting and performance. The current study's insignificant result may therefore reflect the trade-off between accumulated expertise and declining independence. Regulatory frameworks should aim to balance these effects through reasonable tenure limits or periodic rotation to maintain objectivity.

The relationship between audit tenure and ROA was positive but not statistically significant, suggesting a marginally beneficial effect on asset efficiency. Longer engagements can facilitate deeper organizational insight, supporting more effective audit recommendations (Soyemi, Afolabi, & Obigbemi, 2021). However, the weak result implies that tenure's benefits are mediated by factors such as internal control systems, governance strength, and regulatory enforcement (Sulaiman et al., 2019). The result for EPS also showed a negative but insignificant association, meaning that audit tenure does not significantly affect shareholder value. EPS, being influenced by market and policy dynamics, may be less sensitive to internal audit arrangements. Daniels and Booker (2011) observed that rotation policies enhance perceived independence without necessarily improving financial outcomes, consistent with the present findings.

### **Conclusion and Recommendations**

This study concludes that audit independence exerts a context-dependent influence on financial performance indicators of quoted insurance companies in Nigeria. Audit fees demonstrated a strong, positive, and statistically significant relationship with NPM, suggesting that higher investments in audit services contribute to greater financial transparency and profitability. This indicates that audit expenditure serves as a proxy for quality assurance, enhancing stakeholder confidence and reducing information asymmetry. However, the relationship between audit fees and ROA was positive but insignificant, implying that while greater audit investment may enhance governance quality, it does not directly translate into improved asset efficiency. The result for EPS similarly indicated a positive yet insignificant relationship, showing that although higher audit fees can bolster credibility and investor confidence, their short-term influence on shareholder returns remains weak. Audit tenure displayed negative and statistically insignificant relationships with NPM and EPS, suggesting that prolonged auditor engagements may reduce professional scepticism and weaken independence, thereby limiting their effectiveness in improving profitability and earnings. Conversely, the positive but insignificant relationship between audit tenure and ROA indicates that longer engagements may enhance understanding of firm operations, though this advantage may be offset by familiarity threats. These findings highlight that while both audit fees and tenure are important dimensions of audit independence, their effectiveness depends on regulatory oversight, governance strength, and the enforcement of ethical standards.

Insurance companies should ensure that audit fees are commensurate with the complexity of their operations and the scope of services required. Boards should prioritize audit quality over cost minimization, recognizing that adequate audit investment enhances transparency and performance. Regulators should establish fee adequacy benchmarks to discourage underpricing that may compromise audit integrity. To safeguard independence, regulators should adopt a balanced audit tenure policy. Audit engagements should be long enough to build institutional knowledge yet limited to prevent complacency. Regular peer reviews and auditor evaluations should be mandated to maintain objectivity throughout long-term engagements. Audit committees should play a more active role in monitoring auditor independence by reviewing both tenure and fee structures. They should ensure that non-audit services do not impair independence and that auditor transitions are managed smoothly to maintain continuity in audit quality.

Policymakers should consider mandating staggered rotation of audit teams within the same firm to retain institutional knowledge while mitigating overfamiliarity. Insurance firms should complement external audit independence with robust internal control systems and audit committee oversight to enhance reporting reliability and long-term performance. Finally, insurance companies should treat audit expenditures as strategic investments in governance and reputation rather than discretionary expenses. Adequate funding, periodic auditor review, and transparent reporting of audit-related policies will strengthen stakeholder confidence, improve audit quality, and ultimately support sustainable financial performance in Nigeria's insurance sector.

## **References**

- Adeyemi, S. B., Okpala, O., & Dabor, E. L. (2012). Factors Affecting Audit Quality in Nigeria. *International Journal of Business and Social Science*, 3(20), p. 198 - 209. <https://ir.unilag.edu.ng/items/9a9d91eb-bdfa-402c-82ce-9375b465dde4>
- Afifa, M. M. A., Saleh, I. H., & Haniah, F. F. (2021). Does earnings management mediate the relationship between audit quality and company performance? Evidence from Jordan. *Journal of Financial Reporting and Accounting*, 21(3), 747-774. <https://doi.org/10.1108/JFRA-08-2021-0245>
- Akther, T., & Xu, F. (2020). Existence of the audit expectation gap and its impact on stakeholders' confidence: The moderating role of the financial reporting council. *International Journal of Financial Studies*, 8(1), 4. <https://doi.org/10.3390/ijfs8010004>
- Amahalu, N. (2020). Effect of audit quality on financial performance of quoted conglomerates in Nigeria. *International Journal of Management Studies and Social Science Research*, 2(4). <https://ssrn.com/abstract=3704497>
- Bakare, I. (2019). Board independence and audit quality in Nigeria. *Accounting and taxation review*, 3(1), 1-12. <https://hdl.handle.net/11159/4414>



**Cletus Iheonunekwu****& Prof. C. C. Ebere***International Journal of Accountancy, Finance and Taxation*

- Bakri, M. A. (2021). Moderating effect of audit quality: The case of dividend and firm value in Malaysian firms. *Cogent Business & Management*, 8(1), 2004807
- Boshnak, H. A. (2021). The impact of audit committee characteristics on audit quality: Evidence from Saudi Arabia. *International Review of Management and Marketing*, 11(4), 1
- Boyko, A.O.. (2011). Insurance company portfolio optimization based on reinsurance operations usage. 115. 160-169
- Bratten, B., Causholli, M., & Sulcaj, V. (2022). Overseeing the external audit function: Evidence from audit committees' reported activities. *Auditing: A Journal of Practice & Theory*, 41(4), 1-31
- Connelly, B. L., Certo, S. T., Reutzel, C. R., DesJardine, M. R., & Zhou, Y. S. (2025). Signaling theory: state of the theory and its future. *Journal of management*, 51(1), 24-61
- Daniels, B. W., & Booker, Q. (2011). The effects of audit firm rotation on perceived auditor independence and audit quality. *Research in Accounting Regulation*, 23(1), 78-82. <https://doi.org/10.1016/j.racreg.2011.03.008>
- DePamphilis, D. M. (2011). Introduction to Mergers and Acquisitions. *Mergers, Acquisitions, and Other Restructuring Activities (Sixth Edition)*, 3-50. <https://doi.org/10.1016/B978-0-12-385485-8.00001-3>
- Elewa, M. M., & El-Haddad, R. (2019). The effect of audit quality on firm performance: A panel data approach. *International Journal of Accounting and Financial Reporting*, 9(1), 229-244. <https://doi.org/10.5296/ijafr.v9i1.14163>
- Elmashtawy, A., Che Haat, M. H., Ismail, S., & Almaqtari, F. A. (2024). Audit committee effectiveness and audit quality: the moderating effect of joint audit. *Arab Gulf Journal of Scientific Research*, 42(3), 512-533.
- Enekwe, C., Nwoha, C., & Udeh, S. N. (2020). Effect of audit quality on financial performance of listed manufacturing firms in Nigeria (2006-2016). *Advance Journal of Management, Accounting and Finance*, 5(1), 1-12. <http://eprints.gouni.edu.ng/id/eprint/2548>
- Hassan, S. U., & Farouk, M. A. (2014). Audit quality and financial performance of quoted cement firms in Nigeria. <https://citeseerx.ist.psu.edu/document?repid=rep1&type=pdf&doi=049654967f24dea1cec3abea8e1dde03320f7eb2>
- Hegazy, M., El-Deeb, M. S., Hamdy, H. I., & Halim, Y. T. (2023). Effects of organizational climate, role clarity, turnover intention, and workplace burnout on audit quality and performance. *Journal of Accounting & Organizational Change*, 19(5), 765-789. <https://doi.org/10.1108/JAOC-12-2021-0192>
- Iliemena, R. O., & Okolocha, C. B. (2019). Effect of audit quality on financial performance: Evidence from a developing capital market. *International Journal of Recent Research in Commerce Economics and Management*, 6(3), 191-198

**Cletus Iheonunekwu****& Prof. C. C. Ebere***International Journal of Accountancy, Finance and Taxation*

- Khan, A. W., & Subhan, A. Q. (2019). Impact of board diversity and audit on firm performance. *Cogent Business & Management*, 6(1), 1611719. <https://doi.org/10.1080/23311975.2019.1611719>
- Khanh, H. T. M., & Nguyen, V. K. (2018). Audit quality, firm characteristics and real earnings management: The case of listed vietnamese firms. *International Journal of Economics and Financial Issues*, 8(4), 243
- Matoke, V. N., & Omwenga, J. (2016). Audit quality and financial performance of companies listed in Nairobi securities exchange. *International Journal of Scientific and Research Publications*, 6(11), 372-381
- Mustapha, U. A., Rashid, N., Ado, A. B., & Ademola, L. S. (2019b). The effect of audit quality on accruals earnings management in Nigerian listed firms. *International Journal of Recent Technology and Engineering*, 8(4), 4894-4897.
- Novita, W., Nopiana, P. R., & Putri, Y. A. (2022). Analysis of External Factors Affecting Audit Quality in Indonesia. *International Journal of Islamic Business and Management Review*, 2(1), 88-98. <https://doi.org/10.54099/ijibmr.v2i1.143>
- Ojala, H., Niskanen, M., Collis, J., & Pajunen, K. (2014). Audit quality and decision-making in small companies. *Managerial Auditing Journal*, 29(9), 800-817. <https://doi.org/10.1108/MAJ-08-2014-1063>
- Oladejo, M., Jk, O., & Yinus, S. (2020). External audit quality and users confidence in financial reports: evidence from nigeria deposit money banks. *International Journal of Technology and Management*, 5(1), 16
- Ozegbe, K. K., & Jeroh, E. (2022). Audit Quality and the Financial Performance of Quoted Companies in Nigeria: Empirical Discourse. *Acta Universitatis Danubius: Oeconomica*, 18(5). <https://www.ceeol.com/search/article-detail?id=1161974>
- Phan, T., Lai, L., Le, T., & Tran, D. (2020). The impact of audit quality on performance of enterprises listed on Hanoi Stock Exchange. *Management Science Letters*, 10(1), 217-224. DOI: 10.5267/j.msl.2019.8.001
- Rahman, M. M., Meah, M. R., & Chaudhory, N. U. (2019). The impact of audit characteristics on firm performance: an empirical study from an emerging economy. *The Journal of Asian Finance, Economics and Business*, 6(1), 59-69. <https://doi.org/10.13106/jafeb.2019.vol6.no1.59>
- Rana, T., Ahmed, Z. U., Narayan, A., & Zheng, M. (2021). An institutional theory perspective on public sector reform and service performance reporting by New Zealand universities. *Journal of Accounting & Organizational Change*, 18(3), 461-484.
- Rodríguez, C. M., & Alegría, S. S. (2012). The value of audit quality in public and private companies: evidence from Spain. *Journal of Management & Governance*, 16, 683-706. <https://doi.org/10.1007/s10997-011-9183-4>

- Rompotis, G., & Balios, D. (2023). Audit quality, firm performance and risk: evidence from Greece. *Review of Accounting and Finance*, 22(5), 636-662. <https://doi.org/10.1108/RAF-02-2023-0038>
- Rozario, A. M. (2019). Three essays on audit innovation: Using social media information and disruptive technologies to enhance audit quality (Doctoral dissertation, Rutgers University-Graduate School-Newark). <https://rucore.libraries.rutgers.edu/rutgers-lib/60551/>
- Sayyar, H., Basiruddin, R., Rasid, S. Z., & Elhabib, M. A. (2015). The impact of audit quality on firm performance: Evidence from Malaysia. *Journal of Advanced Review on Scientific Research*, 10(1), 1-19
- Shamki, D., & Hussein, M. A. (2023). A Suggested Mechanism to Measure External Audit Quality and Failure. *Journal Port Science Research*, 6(3), 211-232. <https://doi.org/10.36371/port.2023.3.4>
- Soyemi, K. A., Olufemi, O. A., & Adeyemi, S. B. (2020). External audit(or) quality and accrual earnings management: Further evidence from Nigeria. *Malaysian management journal*, 24, 31-56. <http://mmj.uum.edu.my/images/vol24july2020/31-56.pdf>
- Soyemi, K., Afolabi, O. V., & Obigbemi, I. F. (2021). External audit quality and clients' corporate governance mechanisms in Nigeria: Any nexus?. *Journal of Research in Emerging Markets*, 3(2), 44-59.
- Sulaiman, N. A., Shahimi, S., & Nashtar Singh, R. K. (2019). People and audit process attributes of audit quality: Evidence from Malaysia. *Management & Accounting Review (MAR)*, 18(2), 47-80. <https://ir.uitm.edu.my/id/eprint/30962/>
- Toumeh, A. A., Yahya, S., Yassin, M. M., & Ayoush, M. D. (2021). The moderating effect of audit quality on the links between stock market segmentations, surplus free cash flow, and income-increasing discretionary accruals. *Australasian Accounting, Business and Finance Journal*, 15(4), 153-174
- Ugwu, C. C., Aikpitanyi, L. N., & Idemudia, S. (2020). The effect of audit quality on financial performance of deposit money banks (evidence from Nigeria). *Journal of Economics and Business*, 3(1).
- Usang, O. U. E., & Salim, B. (2016). Dimensions of internal audit quality and performance of local governments in Nigeria. *Asian Social Science*, 12(4), 28-36
- Velte, P., & Issa, J. (2019). The impact of key audit matter (KAM) disclosure in audit reports on stakeholders' reactions: a literature review. *Problems and Perspectives in Management*, 17(3), 323-341. [http://dx.doi.org/10.21511/ppm.17\(3\).2019.26](http://dx.doi.org/10.21511/ppm.17(3).2019.26)