Revisiting Auditor Independence and Financial Performance: A Panel Data Study of Nigerian Banks

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ABSTRACT

This study examines the impact of auditor independence on the financial performance of listed deposit money banks in Nigeria, with financial performance measured by Return on Assets (ROA). Using a panel data approach, the study analyzes the annual reports of 12 Nigerian banks from 2013 to 2023. The results show that non-audit fees and auditor rotation have negative but statistically non-significant effects on ROA, indicating limited influence on performance. Conversely, audit concentration has a positive and statistically significant impact on ROA, suggesting that higher audit concentration, linked to larger audit firms, enhances performance by fostering investor confidence and regulatory compliance. Auditor tenure has a positive but non-significant effect, highlighting that auditor tenure does not substantially affect performance. The study emphasizes the importance of audit concentration in the Nigerian banking sector and recommends that regulators focus on ensuring competitive audit markets while strengthening policies around non-audit fees and rotation to maintain auditor independence. These findings offer valuable insights for governance practices in emerging markets and inform policymakers on improving financial transparency and stability.

Keywords: Auditor Independence, Financial Performance, Non-Audit Fees, Auditor Tenure, Audit Concentration, Auditor Rotation, Return on Assets.

INTRODUCTION

The financial performance of deposit money banks is a crucial determinant of economic stability, reflecting their efficiency, profitability, and ability to generate returns. In Nigeria, listed banks play a central role in financial markets, making their performance a key concern for stakeholders, including investors and regulators. One major factor influencing financial outcomes is the independence of external auditors, which ensures unbiased financial reporting and strengthens investor confidence (Ndagano, 2024). However, concerns have been raised about the extent to which Nigerian banks maintain auditor independence, given the common practice of engaging auditors for both audit and non-audit services (Imafidon et al., 2023). This study, therefore, revisits the relationship between auditor independence and financial performance in Nigerian banks using panel data analysis.

Auditor independence is fundamental in maintaining the credibility of financial reports, yet various factors threaten its integrity. One such factor is non-audit fees, which banks pay auditors for additional services such as consulting or tax advisory. While these services may improve the auditor's understanding of a bank's operations, they also pose risks of conflict of interest, potentially compromising audit objectivity (Quick et al., 2023). The Nigerian banking sector, where non-audit services are prevalent, provides an important context for

evaluating whether these services enhance or weaken auditor independence and, by extension, financial performance.

Similarly, auditor tenure—the length of time an auditor serves a particular client—has been widely debated. While long tenures may improve the auditor's understanding of a bank's financial landscape, they can also foster excessive familiarity, reducing audit quality (Soroushyar, 2022). Some regulatory bodies have introduced mandatory auditor rotation to mitigate these risks, yet its application in Nigeria remains inconsistent. Understanding the impact of auditor tenure on financial performance is crucial in assessing whether regulatory reforms are necessary to enhance transparency and accountability (Darmawan, 2023).

Another dimension of auditor independence is auditor concentration, where a small number of large audit firms dominate the market. In Nigeria, the Big Four accounting firms (KPMG, Deloitte, Ernst & Young, and PwC) audit most listed banks. This dominance raises concerns about reduced competition, which may weaken auditors' incentives to conduct thorough, independent audits (Dunne et al., 2022;). However, some argue that the expertise and global reputation of these firms ensure high-quality audits, potentially benefiting bank performance (Narayanaswamy & Raghunandan, 2019). The study seeks to assess whether auditor concentration in Nigeria undermines or enhances the financial performance of banks.

Auditor rotation is another mechanism designed to preserve independence by preventing prolonged auditor-client relationships. The rationale is that changing auditors periodically introduces fresh perspectives and enhances audit quality (Kurniawan, 2023). While mandatory rotation has been discussed in Nigeria, its enforcement is inconsistent, leaving gaps in understanding its impact on financial outcomes. Some argue that frequent rotations disrupt continuity and may lead to inefficiencies, while others believe they strengthen transparency (Ma et al., 2022). This study aims to provide empirical insights into whether auditor rotation improves the financial performance of Nigerian banks.

Despite regulatory efforts to improve auditor independence, gaps remain in assessing its impact on Nigerian banks. Prior studies on the subject have largely focused on other regions, leaving limited empirical evidence for Nigeria. This study, therefore, seeks to bridge this gap by analyzing the effects of non-audit fees, auditor tenure, auditor concentration, and auditor rotation on financial performance, contributing valuable insights for policymakers and industry stakeholders.

LITERATURE REVIEW

The conceptual framework provides a critical foundation for understanding the interrelationships between key variables in the study. The framework illustrates how auditor independence, as measured through various proxies such as auditor tenure, non-audit fees, auditor rotation, and auditor concentration, influences financial performance, measured by return on assets (ROA). Figure 1 below presents the hypothesized relationships between auditor independence and financial performance of listed deposit money banks in Nigeria. The conceptual framework serves not only to clarify the link between theory and practice but also to provide a roadmap for understanding how auditor independence impacts organizational outcomes in the banking sector.

Figure 1: Conceptual Framework for the Study (Source: Author, 2025)

Auditor independence is a cornerstone of high-quality financial reporting, ensuring that financial statements provide a true and fair view of an organization's financial position (Aderibigbe et al., 2024). The relationship between auditor independence and financial performance has been widely studied, with mixed findings across different contexts. Key dimensions of auditor independence include non-audit fees, auditor tenure, auditor concentration, and auditor rotation, each of which has distinct implications for financial performance.

Non-audit fees have been a subject of debate in corporate governance literature. Some studies suggest that providing non-audit services (NAS) compromises auditor independence due to potential conflicts of interest, leading to biased financial reporting (Alrashidi et al., 2021). Auditors who receive substantial fees from NAS may be reluctant to challenge management, undermining financial transparency (Esplin et al., 2018). Conversely, others argue that NAS can enhance audit efficiency by providing auditors with a deeper understanding of the client's business, thereby improving audit quality and financial performance (Ganesan et al., 2019). The impact of NAS on auditor independence remains inconclusive, particularly in emerging markets like Nigeria, where regulatory oversight is still evolving.

Auditor tenure is another significant factor affecting independence. Prolonged auditor-client relationships may lead to excessive familiarity, reducing the auditor's objectivity and increasing the risk of financial misstatements (DeFond & Zhang, 2014). Studies have shown that long tenures correlate with lower audit quality and weaker financial performance (Imafidon et al., 2023). However, other scholars argue that longer tenure fosters a better understanding of a client's financial structure, leading to more effective audits and improved financial stability (Mohapatra et al., 2021). The debate over auditor tenure has led to policy discussions on mandatory auditor rotation, which aims to mitigate risks associated with long-term engagements.

Auditor concentration, referring to the dominance of a few large audit firms, is another key issue. High auditor concentration, as seen with the Big Four firms, raises concerns about reduced competition and auditor complacency (Tahir et al., 2024). Some scholars argue that such dominance may weaken auditors' independence, while others highlight the superior resources and expertise of large firms, which may enhance audit quality and financial performance (Hrazdil et al., 2020; Deliu & Olariu, 2023).

Lastly, auditor rotation has been proposed as a mechanism to strengthen independence by preventing auditors from developing overly close relationships with clients. While rotation introduces fresh perspectives, frequent changes may disrupt the audit process and reduce efficiency (Neiroukh & Caglar, 2025). In Nigeria, the effectiveness of auditor rotation in enhancing financial performance remains an open question. Given the conflicting findings in the literature, this study seeks to provide empirical evidence on how these factors influence the financial performance of Nigerian banks.

THEORETICAL FRAMEWORK

The theoretical framework for this study draws from several key concepts in auditing and financial performance, with a focus on auditor independence. The primary theories that underpin this research are Agency Theory, Information Asymmetry Theory, and Stakeholder Theory. These theories help explain the relationship between auditor independence and the financial performance of listed deposit money banks in Nigeria.

Agency Theory

Agency theory, developed by Jensen and Meckling (1976), posits that there is an inherent conflict of interest between principals (shareholders) and agents (management). The agents, or managers, may act in their self-interest rather than in the best interests of shareholders, leading to potential inefficiencies and financial mismanagement. In the context of auditing, the auditor acts as an independent third party who ensures that financial reports are accurate and unbiased, mitigating the agency problem between management and shareholders. Auditor independence, therefore, plays a critical role in minimizing information asymmetry and

preventing management from distorting financial information to serve their interests (DeFond & Zhang, 2014). Non-audit services, auditor tenure, concentration, and rotation are mechanisms that impact the auditor's independence and, by extension, the effectiveness of their role in reducing the agency problem.

Information Asymmetry Theory

Information Asymmetry Theory suggests that in markets with unequal access to information, one party may have an advantage over another, leading to suboptimal decision-making. In financial markets, the information asymmetry between banks and their stakeholders (investors, regulators, etc.) can lead to uncertainty about a bank's financial health. Auditors, as external entities, help reduce this asymmetry by providing objective assessments of the financial statements, ensuring that stakeholders have access to reliable information. The independence of auditors is crucial to this process, as biased audits can perpetuate information asymmetry and lead to distorted financial reports (Bergh et al., 2018; Esplin et al., 2018). The presence of non-audit fees, long auditor tenure, high auditor concentration, and lack of rotation can all exacerbate information asymmetry by compromising auditor objectivity.

Stakeholder Theory

Stakeholder Theory, proposed by Freeman (1984), emphasizes that organizations have responsibilities not only to shareholders but also to other stakeholders, such as employees, customers, suppliers, and regulators. In the banking sector, the financial performance of banks impacts a wide range of stakeholders, including investors, the broader economy, and regulatory bodies. Auditor independence ensures that banks provide accurate and transparent financial statements, which in turn, help stakeholders make informed decisions. According to stakeholder theory, ensuring the independence of auditors—through mechanisms like non-audit fee restrictions, auditor tenure limits, and rotation policies—ultimately leads to better financial performance and greater trust in the banking system.

Conceptualization of Auditor Independence and Financial Performance

In this study, auditor independence is conceptualized through four key proxies: non-audit fees, auditor tenure, auditor concentration, and auditor rotation. Non-audit fees reflect the potential for conflicts of interest if auditors depend on the same client for both audit and non-audit services. Auditor tenure examines the effects of long-term relationships between auditors and banks, which may either enhance understanding or lead to complacency. Auditor concentration refers to the market dominance of a few audit firms, potentially reducing competition and independence. Finally, auditor rotation assesses the potential for increased independence through periodic changes in auditors, reducing familiarity threats.

The study hypothesizes that auditor independence, as influenced by these factors, directly impacts the financial performance of listed deposit money banks in Nigeria, thereby contributing to a more stable and transparent banking sector.

METHODOLOGY

This study employs a quantitative research methodology using secondary data to explore the relationship between auditor independence and the financial performance of listed deposit money banks in Nigeria. The analysis covers 12 banks over a 10-year period (2013-2023), utilizing data from annual reports and financial statements obtained from the banks' official websites and the Nigerian Stock Exchange (NSE) portal. The key variables analyzed include auditor tenure, non-audit fees, and financial performance indicators such as Return on Assets (ROA).

The study adopts a panel data approach, which allows for the examination of both cross-sectional differences across banks and time-series trends over years. Panel regression models are used to control for unobserved

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heterogeneity and improve the reliability of estimates. Descriptive statistics, correlation analysis, and panel unit root tests are conducted before performing regression analysis. The regression model examines the effect of auditor independence (measured by non-audit fees, auditor tenure, audit concentration, and auditor rotation) on financial performance (ROA). A dynamic panel data model incorporating a lagged dependent variable (ROAi(t−1)) is used to account for the persistence of financial performance over time

The model specification for this study is as follows:

$$ROA_{it} = \alpha_0 + \alpha_1 ROA_{i(t-1)} + \beta_1 NAF_{it} + \beta_2 AT_{it} + \beta_3 AC_{it} + \beta_4 AR_{it} + \mu_i + v_t + \varepsilon_{it} \quad \ldots(1)$$

Where:

- ROA_{it} = Return on Assets for bank ii at time *t*, the dependent variable.
- $ROA_{i(t-1)}$ = Return on Assets for bank *i* at time $t-1$, the lagged dependent variable.
- NAF_{it} = Non-audit fees for bank *i* at time *t*, a key measure of auditor independence.
- AT_{it} = Auditor tenure for bank *i* at time *t*, another measure of auditor independence.
- AC_{it} = Auditor concentration for bank *i* at time *t*.
- AR_{it} = Auditor rotation for bank *i* at time *t*.
- α_0 = constant/intercept term
- β_1, β_2, *and* β_3 = *Slope coefficient/parameter estimates*
- μ_i = Unobserved bank-specific effects, accounting for time-invariant characteristics of each bank.
- v_t = Time-specific effects, capturing factors that vary over time but are common across banks, such as macroeconomic conditions.
- ε_{it} = Error term, assumed to be independent and identically distributed (i.i.d).

The inclusion of the lagged dependent variable $ROA_{i(t-1)}$ accounts for the dynamic nature of bank performance, acknowledging that past financial performance influences current outcomes. This dynamic specification enhances the modeling of temporal relationships in financial performance, providing insights into how past performance affects current financial results.

The methodology is designed to ensure robust and reliable results, with diagnostic tests for serial correlation, heteroskedasticity, and multicollinearity to validate the regression results. The panel data approach allows for the analysis of multiple banks over time, enhancing the generalizability and precision of the findings. The use of secondary data and advanced econometric techniques further strengthens the study's validity.

RESULTS

Descriptive Statistics

According to descriptive statistics, return on asset (ROA), non-audit fee (NAF), auditor concentration (AC), and auditor rotation (AR) reflect long-right tail (positive) skewness and leptokurtic (Kurtosis >3), implying that these series will have more values above their sample mean. Auditor tenure (AT) mirrors normal skewness and platykurtic (kurtosis <3), meaning that the AT series will have more values below their sample mean.

The null hypothesis of the Jarque-Bera test is that the data are normally distributed. The Jarque-Bera statistics for the sampled period 2013 - 2023 indicate that return on assets (ROA), non-audit fee (NAF), auditor tenure (AT), auditor concentration (AC), and auditor rotation (AR) are non-normally distributed since their p-values (0.0000, 0.0000, 0.0073, 0.0000, and 0.0000 respectively) are less than 5 percent level of significance. For this study, therefore, we clearly reject the null hypothesis for the Jacque-bera statistics.

Table 1: Descriptive Statistics

	ROA	NAF	AT	AC	AR
Mean	0.015488	22038.33	3.969697	0.954545	0.083333
Median	0.013102	0	3	1	0
Maximum	0.056167	270379	11	1	1
Minimum	-0.09532	0	1	0	0
Std. Dev.	0.016997	42039.88	2.433668	0.209092	0.277438
Skewness	-2.12382	2.816433	0.635033	-4.36436	3.015113
Kurtosis	17.59111	12.92132	2.579647	20.04762	10.09091
Jarque-Bera	1270.187	715.8903	9.843698	2017.465	476.5455
Probability	0	0	0.007286	0	0
Sum	2.044426	2909060	524	126	11
Sum Sq.	0.069508	2.96E+11	2856	126	11
Sum Sq. Dev.	0.037844	2.32E+11	775.8788	5.727273	10.08333
Observations	132	132	132	132	132

Source: Author's Computation (2025) using Eviews 14

Stationarity (Panel Unit Root) Tests

Before analyzing the effects auditor independence on financial performance of listed deposit money banks in Nigeria using panel regression, this part provides the pre-test analysis. The variables used in the analysis are placed through a panel unit root test (Levin-Lin-Chu (LLC)), which confirms their stationarity features to determine whether they have unit root or are stationary. The outcomes are displayed in the following Table 2. The null hypothesis for the Levin-Lin-Chu (LLC) test is that unit root exists.

Table 2 shows that, while the auditor tenure (AT) and auditor rotation (AR) were stationary at level (i.e., I(0) series), return on asset (ROA), non-audit fees (NAF), and auditor concentration (AC) were not stationary at level and are instead integrated at order one. Because of this, ROA, NAF, and AC are non-mean reverting at levels, and until they are first differenced, they do not converge to their long-run equilibrium. The only variables that will converge at its long-run equilibrium are AT and AR.

Table 2 - Levin-Lin-Chu (LLC) Panel Unit Root Test

Variable	Test Order	Levin-Lin-Chu Statistics	Level of Significance	p-value	Order of integration
ROA	1st Difference	-1.73728	5%	0.0412	I(1)
	Level	-1.43015	5%	0.0763	
NAF	1st Difference	-1.78967	5%	0.0368	I(1)
	Level	1.80359	5%	0.9644	
AT	Level	-2.55923	5%	0.0052	I(0)
AC	1st Difference	-1.08684	5%	0.0241	I(1)
	Level	-0.0703	5%	0.472	
AR	Level	-4.99701	5%	0	I(0)

Source: Author's Computation (2025) using Eviews 14

Panel Data Regression

In this study, the fixed and random effects models were estimated, and after estimating both fixed and random effects models, a more appropriate model was determined using the Hausman test. The results are presented

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below. The null hypothesis for the Hausman test is that the random disturbance term is not correlated with the regressors. In other words, if we reject the null hypothesis, fixed effects is the preferred method, otherwise random effects indicate better estimators.

Table 3 presents the results from the fixed effect model estimation. From the results, NAF (-6.55E-09) and AR (-0.003178) both have a negative and statistically non-significant (P>0.05) effect on ROA. On the other hand, AT (1.14E-06) has a positive but not-statistically significant effect on ROA, while AC (0.023251) has a positive and significant (p<0.05) effect on ROA.

Table 4 presents the results from the random effect model estimation. From the results, NAF (-4.19E-09) and AR (-0.003304) both have a negative and statistically non-significant (P>0.05) effect on ROA. On the other hand, AT (3.44E-06) has a positive but not-statistically significant effect on ROA, while AC (0.024649) has a positive and significant (P<0.05) effect on ROA.

Table 3 – Panel Regression (Fixed Effect)

Dependent Variable: ROA				
Method: Panel Least Squares				
Date: 29/01/25 Time: 09:01				
Sample: 2013 2023				
Periods included: 11				
Cross-sections included: 12				
Total panel (balanced) observations: 132				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.0063	0.006857	-0.91898	0.36
NAF	-6.55E-09	2.78E-08	-0.2354	0.8143
AT	1.14E-06	0.000462	0.002473	0.998
AC	0.023251	0.006847	3.395659	0.0009
AR	-0.00318	0.003917	-0.81144	0.4188
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.61246	Mean dependent var		0.015488
Adjusted R-squared	0.562347	S.D. dependent var		0.016997
S.E. of regression	0.011244	Akaike info criterion		-6.02473
Sum squared resid	0.014666	Schwarz criterion		-5.6753
Log likelihood	413.6319	Hannan-Quinn criter.		-5.88273
F-statistic	12.22161	Durbin-Watson stat		2.439326
Prob(F-statistic)	0			

Source: Author's Computation (2025) using Eviews 14

Table 4: Panel Regression (Random Effect)

Dependent Variable: ROA				
Method: Panel EGLS (Cross-section random effects)				
Date: 29/01/25 Time: 09:04				
Sample: 2013 2023				
Periods included: 11				
Cross-sections included: 12				
Total panel (balanced) observations: 132				
Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.007687	0.0077	-0.998356	0.32
NAF	-4.19E-09	2.76E-08	-0.151876	0.8795
AT	3.44E-06	0.00046	0.007465	0.9941
AC	0.024649	0.00663	3.717744	0.0003
AR	-0.003304	0.00392	-0.843851	0.4003
Effects Specification				
			S.D.	Rho
Cross-section random			0.01346	0.589
Idiosyncratic random			0.011244	0.411
	Weighted Statistics			
R-squared	0.10269	Mean dependent var		0.00378
Adjusted R-squared	0.074429	S.D. dependent var		0.01155
S.E. of regression	0.01111	Sum squared resid		0.01568
F-statistic	3.633549	Durbin-Watson stat		2.28376
Prob(F-statistic)	0.007729			
	Unweighted Statistics			
R-squared	0.168002	Mean dependent var		0.01549
Sum squared resid	0.031486	Durbin-Watson stat		1.13696

Source: Author's Computation (2024) using Eviews 14

The Hausman test (Table 5) was conducted to determine the appropriate model between fixed and random effects. The test yielded a Chi-Sq. statistic of 0.982073, with a p-value of 0.9125, which is greater than 0.05. This indicates that the null hypothesis—that the random effects model is the preferred estimator—is not rejected. Therefore, based on these results, the random effects model is appropriate for this study, as it provides more efficient and unbiased estimates compared to the fixed effects model.

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Table 5: Hausman Test

Correlated Random Effects - Hausman Test				
Equation: Untitled				
Test cross-section random effects				
Test Summary		Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random		0.982073	4	0.9125
Cross-section random effects test comparisons:				
Variable	Fixed	Random	Var(Diff.)	Prob.
NAF	-0.000000	-0.000000	0.000000	0.5476
AT	0.000001	0.000003	0.000000	0.9406
AC	0.023251	0.024649	0.000003	0.4141
AR	-0.003178	-0.003304	0.000000	0.3254
Source: Author's Computation (2025) using Eviews 14				

Source: Author's Computation (2025) using Eviews 14

Diagnostics and Robustness Checks

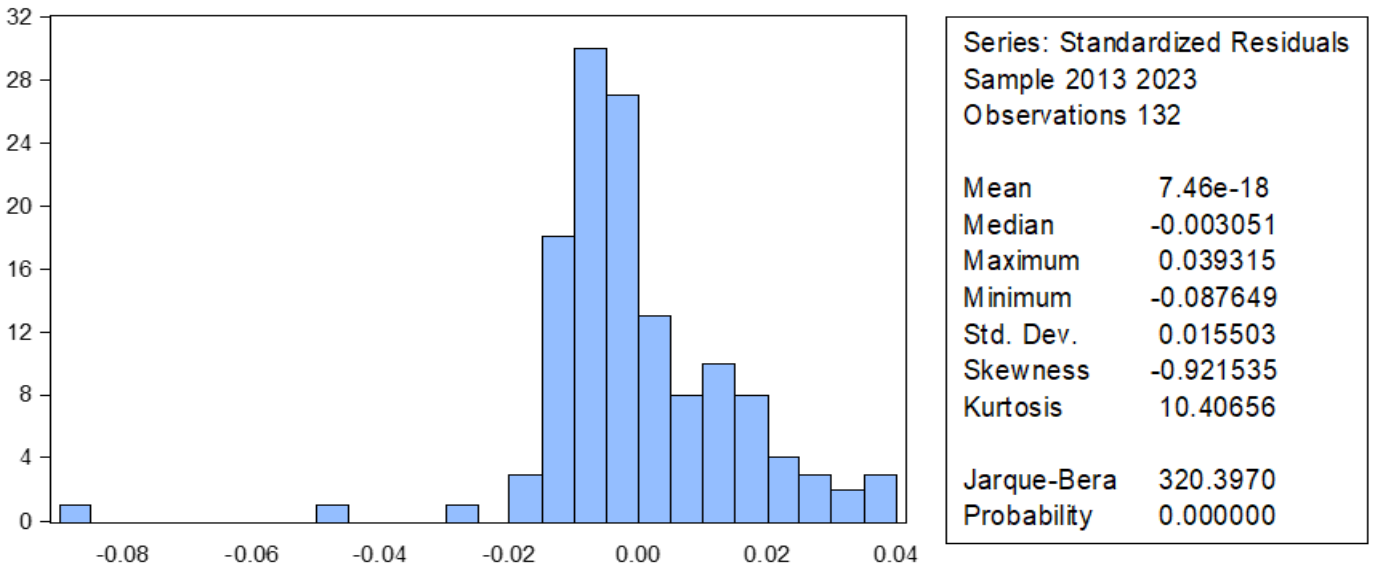

Figure 1 – Histogram

From Figure 1, The Jarque-Bera test results show a test statistic of 320.3970 with a p-value of 0.0000, which is less than 0.05. This suggests that the residuals from the model are not normally distributed, implying potential outliers in the data.

From Table 6, the Breusch-Pagan LM (stat: 67.19004, p-value: 0.4361) suggests that there is no significant cross-sectional dependence across residuals, failing to reject the null hypothesis.

- Pesaran Scaled LM (stat: 0.103579, p-value: 0.9175) also indicates no significant cross-sectional dependence.
- However, Pesaran CD (stat: 2.411361, p-value: 0.0159) rejects the null hypothesis, indicating that there may be some level of cross-sectional correlation

These mixed results suggest limited cross-sectional dependence across residuals, except for the Pesaran CD test, which raises concerns of some dependence.

Table 6: Cross-section Dependency Test

Residual Cross-Section Dependence Test			
Null hypothesis: No cross-section dependence (correlation) in residuals			
Equation: Untitled			
Periods included: 11			
Cross-sections included: 12			
Total panel observations: 132			
Note: non-zero cross-section means detected in data			
Cross-section means were removed during computation of correlations			
Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	67.19004	66	0.4361
Pesaran scaled LM	0.103579		0.9175
Pesaran CD	2.411361		0.0159

Source: Author's Computation (2025) using Eviews 14

The Variance Inflation Factor (VIF) was computed (Table 7) to assess collinearity among independent variables. The results indicate that all centered VIF values are below 5, confirming the absence of significant multicollinearity.

Table 7: Multicollinearity Test (VIF)

Variance Inflation Factors			
Date: 02/08/25 Time: 20:40			
Sample: 2013 2023			
Included observations: 132			
	Coefficient	Uncentered	Centered
Variable	Variance	VIF	VIF
C	4.51E-05	24.54750	NA
AUDIT_CONCENTRATION	4.31E-05	22.40961	1.018618
AUDITOR_ROTATION	2.91E-05	1.321180	1.211082
AUDITOR_TENURE	3.82E-07	4.499478	1.222356
NON_AUDIT_FEES	1.13E-15	1.377414	1.078709

To correct for heteroskedasticity, the regression was re-estimated using White cross-section robust standard errors (Table 8). The results indicate that Audit Concentration, which was previously significant, is no longer statistically significant ($p = 0.2490$), suggesting that heteroskedasticity may have biased the initial findings. The overall model remains statistically significant (Prob. F-statistic = 0.0057), confirming its validity.

To test for autocorrelation, the Durbin-Watson (DW) statistic was examined. The obtained value of 2.2735 in Table 8 suggests that no significant autocorrelation is present in the model, ensuring the reliability of the regression estimates.

DISCUSSION

The study finds that non-audit fees (NAS) have a negative but statistically non-significant effect on financial performance, measured by Return on Assets (ROA). This suggests that while payments for non-audit services—such as tax advisory, risk management, and consultancy—raise concerns about auditor

independence, they do not significantly impact bank profitability in Nigeria. One possible explanation is the presence of regulatory oversight mechanisms, such as the Financial Reporting Council of Nigeria (FRCN) and the Central Bank of Nigeria (CBN), which enforce guidelines to prevent conflicts of interest between auditors and banks.

The findings align with Onulaka et al. (2019) and Abubakar & Musa (2017), who also found no significant relationship between NAS and financial performance in Nigeria. However, Lin and Hwang (2010) suggest that NAS negatively affects financial performance in developed economies by reducing auditor independence and weakening financial reporting quality. The discrepancy may stem from differences in regulatory enforcement, where stricter monitoring frameworks highlight the risks associated with non-audit services. From an Agency Theory perspective, excessive non-audit fees could create conflicts of interest, with auditors prioritizing lucrative consulting relationships over independent financial assessments. However, the non-significance of this relationship in Nigeria suggests that strong governance structures may mitigate these risks.

Table 8: Panel Random Effects Regression Results with White Cross-Section Robust Standard Errors

Dependent Variable: ROA				
Method: Panel EGLS (Two-way random effects)				
Date: 02/08/25 Time: 21:16				
Sample: 2013 2023				
Periods included: 11				
Cross-sections included: 12				
Total panel (balanced) observations: 132				
Swamy and Arora estimator of component variances				
White cross-section standard errors & covariance (d.f. corrected)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.008088	0.023439	-0.345044	0.7306
AUDIT_CONCENTRATION	0.025046	0.021626	1.158117	0.249
AUDITOR_ROTATION	-0.002592	0.001698	-1.5268	0.1293
AUDITOR_TENURE	-1.72E-06	0.000303	-0.005684	0.9955
NON_AUDIT_FEES	-4.94E-09	7.60E-09	-0.650552	0.5165
	Effects Specification			
			S.D.	Rho
Cross-section random			0.013473	0.5746
Period random			0.003451	0.0377
Idiosyncratic random			0.011069	0.3878
	Weighted Statistics			
Root MSE	0.010568	R-squared		0.107527
Mean dependent var	0.003604	Adjusted R-squared		0.079417
S.D. dependent var	0.01123	S.E. of regression		0.010775
Sum squared resid	0.014743	F-statistic		3.825288
Durbin-Watson stat	2.273498	Prob(F-statistic)		0.005708
	Unweighted Statistics			
R-squared	0.168749	Mean dependent var		0.015488
Sum squared resid	0.031458	Durbin-Watson stat		1.137474

Similarly, auditor tenure exhibits a positive but statistically non-significant effect on financial performance, indicating that longer auditor-client relationships do not significantly enhance bank profitability. While

extended auditor tenures could theoretically improve financial outcomes by fostering a deeper understanding of a bank's operations, the results suggest that this advantage is not substantial in Nigeria. This finding is consistent with Eyenubo (2013), who found no strong link between auditor tenure and financial performance. In contrast, studies from developed economies, such as Oberleitner (2017), argue that prolonged auditor tenures may reduce audit quality due to excessive familiarity, leading to leniency in oversight. The difference may be attributed to Nigeria's corporate governance regulations, particularly the Nigerian Code of Corporate Governance (NCCG) 2018, which mandates auditor rotation after 10 years, and the 2020 Audit Regulation, which imposes a 15-year limit on joint audits (SEC, 2024). These policies are designed to prevent excessive familiarity between auditors and their clients while maintaining audit quality. From an Agency Theory perspective, extended auditor tenures could lead to complacency, where auditors become less diligent in detecting financial misstatements. However, the non-significant relationship suggests that other governance mechanisms, such as audit committees, may play a more dominant role in maintaining financial discipline in Nigerian banks.

Conversely, audit concentration has a positive and statistically significant effect on financial performance, implying that banks audited by a smaller, highly reputable set of firms—particularly the Big Four (PwC, KPMG, Deloitte, and Ernst & Young)—tend to experience stronger financial performance. This aligns with Gunn et al. (2019), who found that large audit firms enhance financial credibility, ensure stricter compliance with financial regulations, and reduce the likelihood of financial misreporting. From an Agency Theory standpoint, higher audit concentration mitigates information asymmetry and reinforces auditors' role in aligning management's interests with those of shareholders. However, while audit concentration enhances financial performance, concerns exist regarding excessive reliance on a few dominant audit firms. A highly concentrated audit market could reduce competition, increase audit costs, and create barriers for smaller audit firms, potentially limiting innovation in auditing practices. Nonetheless, Nigeria's regulatory framework appears to support audit concentration while maintaining oversight to prevent market dominance by a select few firms.

Finally, auditor rotation has a negative but statistically non-significant effect on financial performance, implying that periodic auditor changes, intended to prevent excessive familiarity and maintain independence, do not significantly affect profitability in Nigerian banks. Auditor rotation is designed to ensure fresh perspectives in audits and prevent collusion between auditors and bank management. However, the findings suggest that frequent changes may disrupt the audit process, leading to higher costs and delays in financial reporting adjustments. The result aligns with Okolie (2014) and Ogoun and Perelayefa (2020), who found no significant relationship between auditor rotation and financial performance in Nigeria. In contrast, studies from developed economies, such as Lin and Yen (2022), argue that mandatory auditor rotation enhances financial performance by ensuring objectivity and improved scrutiny. The discrepancy may stem from differences in audit enforcement regimes, as Nigeria mandates auditor rotation after 10 years under the NCCG 2018, ensuring that auditors do not remain indefinitely but still gain adequate familiarity with their clients. From an Agency Theory perspective, auditor rotation is intended to reduce conflicts of interest and prevent complacency. However, the non-significance of its effect on financial performance suggests that other governance mechanisms, such as audit committee oversight, may play a more dominant role in ensuring financial discipline.

Overall, the findings highlight audit concentration as the only significant determinant of financial performance in Nigerian banks, underscoring the role of reputable audit firms in enhancing transparency and regulatory compliance. In contrast, non-audit fees, auditor tenure, and auditor rotation do not exhibit statistically significant effects, suggesting that while these factors contribute to corporate governance, their impact on profitability is limited in the Nigerian banking sector. The study reinforces the importance of regulatory oversight in maintaining auditor independence and ensuring that audit practices contribute to financial stability. Future research could expand on these findings by examining additional audit quality metrics, such as auditor industry specialization and audit firm reputation, to gain deeper insights into how auditing practices influence financial performance in emerging economies.

CONCLUSION

This study assessed the impact of auditor independence on the financial performance of listed deposit money banks in Nigeria, using Return on Assets (ROA) as the key financial indicator. The findings reveal a mixed relationship between auditor independence and financial performance, emphasizing the nuanced role of audit practices in Nigeria's banking sector. Audit concentration demonstrated a significant positive effect, suggesting that banks audited by larger, reputable firms benefit from enhanced financial credibility, stricter regulatory compliance, and improved investor confidence. However, the non-significant effects of non-audit fees, auditor tenure, and auditor rotation indicate that these factors may not independently influence financial performance, likely due to existing regulatory frameworks and corporate governance mechanisms that mitigate potential risks. The study reinforces the need for robust audit regulations and stronger oversight structures to uphold auditor independence, ensuring financial transparency, investor trust, and systemic stability within the Nigerian banking sector.

Key recommendations include:

1. Regulatory bodies such as the Financial Reporting Council of Nigeria (FRCN) and the Central Bank of Nigeria (CBN) should strengthen restrictions on non-audit services, ensuring strict separation between audit and advisory functions to minimize conflicts of interest.
2. Deposit money banks should prioritize engaging reputable audit firms, particularly those with demonstrated industry expertise, as audit concentration has been shown to enhance financial performance and compliance with regulatory standards.
3. The Securities and Exchange Commission (SEC) and FRCN should reassess the effectiveness of mandatory auditor rotation policies, considering alternative regulatory approaches—such as joint audits or audit firm rotation—that balance independence with audit continuity.
4. Stronger enforcement of corporate governance frameworks is necessary, with audit committees playing a more active role in overseeing auditor engagements and financial reporting integrity to mitigate agency conflicts and enhance stakeholder confidence..

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