Auditors' Switching Decisions and Corporate Governance Outcomes: Evidence on Accountability and Transparency from Nigeria's Listed Oil and Gas Sector

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ABSTRACT

This study examines the effect of auditor switching decisions on the accountability and transparency of listed oil and gas firms in Nigeria, and whether these governance effects differ between voluntary and regulatory-driven switching episodes. Anchored on Signaling Theory, the paper addresses a critical gap in which auditor switching has largely been treated as a dependent variable rather than an independent driver of governance outcomes. Using a balanced panel of seven listed oil and gas firms on the Nigerian Exchange covering 2012–2024 (91 firm-year observations), fixed-effects regression models reveal that auditor switching has no statistically significant effect on accountability ($\beta = 0.022$, $p = 0.602$) or transparency ($\beta = -0.032$, $p = 0.310$). No significant differential effect is detected between voluntary and regulatory-driven switches. The findings indicate that, in Nigeria's oil and gas sector, auditor switching does not function as an effective governance signal. The study recommends an integrated governance approach rather than reliance on switching as a standalone mechanism.

Keywords: Auditor switching, Accountability, Transparency, Corporate governance, Nigeria

INTRODUCTION

Auditors' switching decisions are widely assumed to enhance corporate governance by introducing fresh oversight and mitigating familiarity threats. In Nigeria's oil and gas sector—capital-intensive, politically sensitive, and central to national revenue—the stakes of such decisions are particularly high. Despite regulatory mandates under the Nigerian Code of Corporate Governance (NCCG) 2018 and the Financial Reporting Council of Nigeria (FRCN) Audit Regulation 2020, empirical evidence treating switching as an independent variable that shapes accountability and transparency remains limited.

Most prior studies examine why firms switch auditors rather than what switching causes. In Nigeria's oil and gas sector, high-profile governance failures have raised questions about whether auditor changes improve accountability and transparency or merely reflect compliance or opportunistic behaviour. Clear sector-specific evidence on these outcomes is lacking.

Research Questions

- What is the effect of auditor switching decisions on the accountability of listed oil and gas firms in Nigeria?
- What is the effect of auditor switching decisions on the transparency of listed oil and gas firms in Nigeria?
- Do the governance effects of auditor switching differ between voluntary and regulatory-driven switching episodes?

Objectives of the Study

- To examine the effect of auditor switching decisions on the accountability of listed oil and gas firms in Nigeria.
- To assess the effect of auditor switching decisions on the transparency of listed oil and gas firms in Nigeria.
- To evaluate whether the governance effects of auditor switching differ between voluntary and regulatory-driven switching episodes.

Research Hypotheses

H_{01}: Auditor switching has no significant effect on the accountability of listed oil and gas firms in Nigeria.

H_{02}: Auditor switching has no significant effect on the transparency of listed oil and gas firms in Nigeria.

H_{03}: There is no significant difference in the governance effects of voluntary versus regulatory-driven auditor switching among listed oil and gas firms in Nigeria.

Significance of the Study

The study provides empirical evidence on whether auditor switching improves accountability and transparency in a strategically critical sector, offering insights for regulators, boards, investors, and scholars interested in the governance consequences of auditor changes.

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

Auditor switching refers to replacing an external audit firm. It may be voluntary (management-initiated) or regulatory-driven (prompted by tenure limits). Accountability is management's and the board's obligation to explain and justify their decisions to stakeholders. Transparency refers to the clarity, completeness, and accessibility of financial and non-financial disclosures.

While a substantial literature examines the determinants of auditor switching [1], [2], [3], [4], far fewer studies treat switching as an independent variable that may affect governance outcomes. This gap is particularly pronounced in emerging markets and in high-risk sectors such as oil and gas.

This study is primarily anchored on Signaling Theory [5]. In the presence of information asymmetry, management can use observable actions—such as changing the external auditor—to signal commitment to stronger monitoring and better governance. A credible switch is expected to improve stakeholders' perceptions of accountability and transparency. Agency theory [6] and stakeholder theory [7] provide complementary insights. However, signaling is effective only when the signal is costly and correctly interpreted. In environments characterised by weak enforcement, switching may become a cheap or noisy signal. This theoretical tension motivates the empirical question addressed in this study.

Prior Nigerian studies largely treat auditors' switching decision as the dependent variable. International evidence on the consequences of switching for governance outcomes remains mixed [8], [4]. Sector-specific evidence for oil and gas firms is almost non-existent. This study addresses the gap by examining switching as the independent variable and testing its effects on accountability and transparency.

METHODOLOGY

The study adopts an ex post facto panel research design.

The population of this study comprises all oil and gas firms listed on the Nigerian Exchange Group (NGX) during the period 2012–2024. A total of ten (10) firms were identified as the population.

Table 3.1: Population of Listed Oil and Gas Firms on the Nigerian Exchange (2012–2024)

S/N	Oil and Gas Firm	Year Listed
1	Ardova Plc	January 1, 1978
2	Capital Oil Plc	August 29, 1985
3	Conoil Plc	April 6, 2022
4	Eterna Plc	August 1998
5	Japaul Gold & Ventures Plc	August 10, 1978
6	MRS Oil Nigeria Plc	January 1, 1978
7	Oando Plc	February 24, 1992
8	Aradel Holding Company Plc	October 14, 2024
9	Seplat Energy Plc	April 14, 2014
10	TotalEnergies Marketing Nigeria Plc	June 1979

From the population of ten firms, a final sample of seven (7) firms was selected using purposive sampling. Aradel Holding Company Plc was excluded because it was only listed in October 2024 and lacked sufficient historical data. Capital Oil Plc was excluded because it was delisted due to regulatory issues. One additional firm with extensive missing data was also excluded. The final sample of seven firms represents 70% of the population and yields 91 firm-year observations.

Accountability (AC) is measured by the Accountability Disclosure Index (ADI) ranging from 0 to 1. Transparency (TR) is measured by the Voluntary Disclosure Index (VDI) ranging from 0 to 1. Auditor Switching (AS) is a binary variable equal to 1 if the firm changed its external audit firm in year t. Control variables include audit fees, audit tenure, and regulatory environment. Both indices were independently coded by two researchers with satisfactory inter-rater reliability (ADI: $\kappa = 0.79$; VDI: $\kappa = 0.76$).

Regression models with firm-clustered robust standard errors are estimated. Firm fixed effects absorb time-invariant unobserved heterogeneity. Given the small number of clusters (N = 7) and the rarity of switching events, results are interpreted as associations rather than causal effects.

RESULTS AND DISCUSSION

Auditor switching occurs in approximately 23.1% of firm-years. Mean accountability (0.724) exceeds mean transparency (0.569).

Table 4.2: Fixed-Effects Regression – Effect of Auditor Switching on Accountability

Variable	Coefficient	Robust SE	t-value	p-value
Auditor Switching	0.022	0.040	0.55	0.602
Audit Fees	−1.17e-10	2.02e-10	−0.58	0.584
Audit Tenure	−0.120	0.074	−1.62	0.157

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Regulatory Environment	0.020	0.069	0.29	0.785
Constant	0.801***	0.060	13.36	0.000
Firm Fixed Effects	Yes			
Observations	89			
Number of Firms	7			

Notes: Robust standard errors clustered by firm. *** p < 0.01.

Source: Authors' computation from Stata.

Table 4.3: Fixed-Effects Regression – Effect of Auditor Switching on Transparency

Variable	**Coefficient**	**Robust SE**	**t-value**	**p-value**
Auditor Switching	−0.032	0.029	−1.11	0.310
Audit Fees	3.94e-11	8.32e-11	0.47	0.652
Audit Tenure	−0.031	0.055	−0.56	0.594
Regulatory Environment	0.018	0.045	0.40	0.701
Constant	0.581***	0.036	16.24	0.000
Firm Fixed Effects	Yes			
Observations	89			
Number of Firms	7			

Notes: Robust standard errors clustered by firm. *** p < 0.01.

Source: Authors' computation from Stata.

H_{01} is not rejected (p = 0.602).

H_{02} is not rejected (p = 0.310).

H_{03} is not rejected (no significant differential effect detected).

Auditors' switching has no statistically significant effect on accountability or transparency. The results indicate that changing auditors does not, by itself, improve these governance outcomes in listed Nigerian oil and gas firms. The findings challenge the signalling prediction that auditor changes convey credible information about stronger monitoring. Accountability and transparency appear to be driven more by internal governance structures than by auditor switching.

CONCLUSION AND RECOMMENDATIONS

The study finds that auditors' switching decisions have no significant effect on accountability, no significant

effect on transparency, and no significant differential effect between voluntary and regulatory-driven switches.

In isolation, is not an effective mechanism for improving accountability or transparency among listed oil and gas firms in Nigeria?

Boards and regulators should not rely on auditor switching alone as a means of strengthening accountability. Firms seeking to improve transparency should prioritise robust disclosure policies and independent audit-committee effectiveness. Regulatory frameworks should treat mandatory rotation as one element within a broader governance package.

The study is limited to listed oil and gas firms and secondary disclosure indices. The small number of firms constrains statistical power.

Future research may expand the sample, incorporate audit-committee characteristics, or examine longer-term effects of switching.

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APPENDIX A

Accountability Disclosure Index (ADI) Checklist

Item No.	Disclosure Item / Criterion	Coding Rule
1	Clear statement of board's responsibilities	1 if explicitly stated, 0 otherwise
2	Disclosure of board evaluation process & outcomes	1 if described, 0 otherwise
3	Report on attendance of individual directors at meetings	1 if individual attendance reported, 0 otherwise

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4	Existence and composition of an Audit Committee disclosed	1 if yes, 0 otherwise
5	Audit Committee report included in annual report	1 if separate substantive report present, 0 otherwise
6	Statement on the effectiveness of internal controls	1 if provided, 0 otherwise
7	Disclosure of a whistleblowing policy/mechanism	1 if described, 0 otherwise
8	Statement of compliance with NCCG 2018 ("Apply and Explain")	1 if detailed; 0.5 if basic; 0 if absent

Total Score: ADI = (Total Points Scored) / (Total Possible Points for Applicable Items)

APPENDIX B

Voluntary Disclosure Index (VDI) Checklist

Scoring: 1 = Detailed/quantitative; 0.5 = Boilerplate; 0 = Absent

Item	Disclosure Item
V1	Detailed corporate strategy & objectives
V2	Future opportunities & risks (beyond IFRS)
V3	Financial forecasts / production & CAPEX targets
V4	Detailed CSR projects & impacts
V5	Environmental policy & performance data
V6	Health & Safety performance statistics
V7	Detailed biographical information of directors
V8	Director remuneration policy & individual pay
V9	Board diversity policy and statistics
V10	Segment reporting beyond IFRS 8
V11	Discussion of reserves & resources
V12	CAPEX breakdown by project/type
V13	Related-party transactions beyond minimum requirements

Total Score: VDI = (Sum of Scores) / (Maximum Possible Score)

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APPENDIX C

Notes on Sample and Raw Data

The final sample consists of seven listed oil and gas firms: Ardova Plc, Conoil Plc, Eterna Plc, MRS Oil Nigeria Plc, Oando Plc, Seplat Energy Plc, and TotalEnergies Marketing Nigeria Plc for the period 2012–2024 (91 firm-year observations). Full firm-year data are available from the corresponding author upon reasonable request.

APPENDIX D

Inter-Rater Reliability of Disclosure Indices

Index	Percentage Agreement	Cohen's Kappa
Accountability Disclosure Index (ADI)	87.4%	0.79
Voluntary Disclosure Index (VDI)	84.1%	0.76

Two independent coders scored all observations. Disagreements were resolved by consensus.