

Role of Auditor Independence in Enhancing Audit Quality: Evidence from Nigeria's Insurance Sector

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Abstract:

This study examines the role of auditor independence in enhancing audit quality, with a focus on listed insurance companies in Nigeria. Auditor independence is a cornerstone of credible financial reporting, and its influence on audit quality remains a critical area of interest, particularly in sectors such as insurance that are highly regulated and sensitive to public trust. The paper adopts secondary data based on the available existing studies in the area. Key indicators of auditor independence, such as audit firm tenure, provision of non-audit services, audit fees, and regulatory compliance, are assessed against established measures of audit quality, including financial report accuracy, detection of material misstatements, and stakeholder confidence. The paper argues that there is a significant positive correlation between auditor independence and audit quality, underscoring the importance of strict adherence to ethical standards and regulatory frameworks. The study affirms that auditor independence plays a critical role in enhancing audit quality within Nigeria's insurance sector. Independent auditors are better positioned to deliver objective, unbiased assessments of financial statements, thereby strengthening the credibility and reliability of financial reporting. The findings reveal that key elements such as audit firm tenure, non-audit service restrictions, and regulatory oversight significantly influence the degree of auditor independence and, by extension, the quality of audits conducted. Despite the progress made, challenges such as long auditor-client relationships, inadequate enforcement of auditor rotation, and the provision of non-audit services continue to undermine audit objectivity in the sector.

Keywords:

Audit, Auditor, Independence, Insurance, and Quality.

I. Introduction

In recent times, Nigeria has battled towards breaking loose from the recent excruciating economic recession; the need to maintain investors' confidence in the capital market through high-quality audit and transparent financial reporting is unequivocally paramount. Considering that some investors in the past decade, appeared to have lost confidence on the authenticity, integrity, effectiveness and significance of the audit function owing to cases of incessant accounting scandals which were largely linked to poor audit quality associated with a perceived lack of auditor independence, among other factors (Ogbeide, Okaiwele & Ken, 2018), ensuring higher audit quality may help to wholesomely restore investors' confidence in this critical economic situation the country is facing (Aondover, 2025).

Auditors are saddled with the responsibility of examining the financial report of organisations for the purpose of ascertaining whether it represents that which they purport (Babatolu, Aigienohuwa & Uniamikogbo, 2016). The primary purpose of an audit, therefore, is to provide company shareholders with an expert and independent opinion as to whether the annual financial statement of the company reflects a true and fair view of the financial position of such company, and whether they can be relied upon for investment decision. However, for the auditor to give the expected unbiased and honest professional opinion on the trueness and

fairness of financial statements to the shareholders, the auditor needs to be independent of the client company, so that the audit opinion will not be influenced by any relationship between them (Abubakar, 2012).

Audit independence therefore, refers to the ability of the external auditor to act with integrity and impartiality during his or her auditing function (Akpom & Dimkpha, 2013). Independence, in this context, represents the means by which an auditor demonstrates that he can objectively perform his task. However, doubts are sometimes expressed regarding the independence of external auditors as most auditors could reach audit opinions and judgments that are heavily influenced by the wish to maintain good relations with the client company. If this happens, the auditors can no longer be said to be independent, and the shareholders may not rely on their opinion. A typical example would be the relationship between Enron and their auditors, Arthur Andersen in the year 2000, where the latter received about \$ 27 million for non-audit services, compared with \$ 25 million for audit services. In the aftermath of Enron's demise, the accounting firm was accused of not acting independently.

Similar cases of corporate and accounting scandals in Nigeria such as Cadbury Nigeria Plc, African Petroleum (AP), Savannah Bank, Nampak, Finbank, Spring Bank, Intercontinental Bank, Bank PHB, Oceanic Bank Plc, AfriBank Plc, among others, were equally publicised (Ogbeide et al., 2018). One common phenomenon in the majority of these bankruptcy cases is that most of the corporations had clean auditor's report before they eventual collapsed (Dabor & Dabor, 2015).

Therefore, the monitoring role of external auditor is critical in promoting the quality of financial statements prepared by management. By providing independent verification of financial statements, auditors lend credibility to accounting information and enhance its integrity. Dabor and Dabor (2015) argued that financial statements audit is a monitoring mechanism that minimizes information asymmetry and protect the interest of the principals as well as existing and potential stakeholders, by providing reasonable assurance that the financial statements (prepared by management) are free from material misstatements. As such, external audit helps reduce agency costs between managers and external parties.

However, these external parties cannot be expected to trust reported financial information without confidence in the auditors' independence. Recently, there is an increasing concern by regulators, investors and the general public regarding the quality and reliability of audited financial statements, because auditors compromise independence and thus diminish the quality of earnings reported, by either providing non-audit services to clients or collecting abnormal audit fees from the clients (Romano, 2004). However, in order to achieve increased credibility of financial statements, there is need for quality audit. The auditor evaluating the company's financial statements should be independent from the company's management providing this same information and should have the ability and willingness to put confidence on the audit quality (AQ).

Oluwagbuyi and Olowolaju (2013) see audit quality as the ability of the auditor to detect misrepresentations and manipulations and the willingness to report such. From their perception, it can be said that audit quality explains the ability of the audit to effectively constrain earnings misrepresentation and financial statement manipulations. A measure of audit quality is in its ability of the auditor to improve the credibility of the financial statements by reducing the noise and bias that may be caused by earnings misrepresentation and

manipulations. A high audit quality improves reporting entities' implementation of appropriate accounting standards thereby, increasing the assurance that the financial statements are reliable, transparent and useful to the market. Audit quality underpins confidence in the credibility and integrity of financial statements that is made available to investors, owners, creditors and other users (Okolie & Izedonmi, 2014). Once investors and prospective investors have confidence in the financial statements of a company, such confidence will increase the demand for the shares of that company which will as well increase the company's share market value. It suffices to state that there is a nexus between auditor independence and audit quality as it provides a basis of assurance to users of the financial statements; it attracts investors easily through improved assurance as to the clients' true financial position hence, affecting the market value of such a firm (Okolie & Izedonmi, 2014).

Based on the existing literature, there is no significant variance from the findings of the previous studies, as there are mixed and conflicting results on the empirical relationship between auditor independence and audit quality. For instance, Aliu, Okpanachi and Mohammed (2018) findings revealed that there is a significant positive relationship between auditor's independence and audit quality. Similarly, Ndubuisi, Okeke and Chinyere (2017) results show that there is a positive and statistically significant relationship between audit independence and audit quality of healthcare firms listed on the floor of Nigeria Stock Exchange. Corroborating, Okolie (2014) examines the relationship and effects of auditor tenure and auditor independence on the earnings management (discretionary accruals) of companies in Nigeria. The empirical analysis shows that auditor independence exerts significant effects and exhibit significant relationship with the number of discretionary accruals of quoted companies in Nigeria (Aondover, 2025).

Findings by Ilaboya and Ohiokha (2014) also revealed a positive relationship between firm size, board independence and audit quality whereas there is a negative relationship between auditor's independence and audit quality. However, Kabiru and Abdullahi (2012) carried out an empirical investigation into the quality of audited financial statements of deposit money banks in Nigeria. They found that independence of an auditor does significantly improve the quality of audited financial statements of money deposit banks in Nigeria.

Insurance industry in Nigeria is critical to propelling income equality and reducing the poverty level but the industry's performance has continued to drag amid many factors, such as; low underwriting capacity of players, lack of trust by consumers, poverty and the inadequacy of distribution infrastructure. These factors have jointly contributed to the abysmal level of insurance penetration - the proportion of insurance business to the gross domestic product over the years. Jusoh and Ahmed (2014) maintained that the insurance companies in Nigeria remain largely underdeveloped with insurance penetration still at c.0.5% to GDP. The sector which contracted by 18.67% y/y in the Q3 GDP report released by the National Bureau of Statistics (NBS) is set for a deep recession in 2021. In a bid to rid the sector of these known drags, the National Insurance Commission (NAICOM), the primary regulator in the industry, launched its recapitalization exercise in May 2019. The plan's proponents intend to improve the industry's minimum paid-up capital in each business segment, thereby solving premium flight issues that have continued to plague the industry. Nigeria's insurance market therefore has great potential given its position as Africa's largest economy, its substantial oil and gas reserves and its young and growing population. Yet Nigeria's insurance market has failed short on that promise due in part to the volatility of growth in the country's real gross domestic product, along with uneven enforcement of mandatory retail insurance lines.

There are 57 insurance companies operating in the Nigerian market, according to Best's Market Segment Report 2021, based on the country's latest regulatory data. The NGN 426 billion (USD 1.2 billion) of gross written premium (GWP) generated in 2018 represented growth of 14.5% over the previous year. In the five years between 2014 and 2018, the compound annual growth rate of total GWP grew on average by 8.6% per annum. But that growth is not what it appears. AM Best analysts note that although growth has seemingly been strong, when viewed in real terms, the market actually contracted by approximately four percentage points due to inflation that averaged 12% over the same period. Market-wide GWP (excluding health insurance premiums) grew broadly in line with inflation to reach approximately NGN 490 billion (USD 1.3 billion) at year-end 2020, according to Nigerian Insurers Association (NIA) figures.

A key factor behind the relatively slow real GWP growth has been the low insurance penetration in retail lines. "Low retail penetration can be partly explained by the low level of awareness and trust in insurance, as well as the absence of strong financial literacy across large parts of the population," the report says. Furthermore, the extremely shallow level of economic growth in recent years has affected both the demand for insurance as well as the value of insurable assets across a number of lines of business. It is within this context that this study therefore seeks to investigate auditor independence and audit quality of listed insurance companies in Nigeria.

II. Review of Literature

2.1 Theoretical Underpinning

The paper employed Stakeholder Theory, which evolved from the agency theory. The agency theory sees any modern organization as an aggregation of the interactions between the principals and their agents. The principals are the shareholders who are the owners of the entity while the agents are the managers who are usually the experts with control over the day-to-day affairs of the entity. This relationship, as is observed by analysts, creates information asymmetry with the managers having information advantage. This creates the need for proper monitoring which has brought to the fore role of the auditor, who is required to provide an independent examination of the affairs of the entity so as to be able to express an opinion on the financial statements of the entity. Such expressed opinion by the auditor is basis for "faith" and "confidence" in the financial statements (Ndubuisi et al., 2017).

The stakeholder theory is a natural extension of the agency theory. The theory holds that every entity involves the interactions of more than the principals and their agents. Such relationships will also involve the interaction of everyone with a stake in the affairs of the entity: the host community, creditors, bankers, government and others. This means that there is greater information demand on the entity; this therefore places greater demands on the auditor to ensure the representativeness of the financial statements (Ndubuisi et al., 2017).

Based on the reviewed theories, the study anchored on the auditors' theory of inspired confidence, which offers a linkage between the users' requirement for credibly audited financial reports and the capacity of the audit processes to meet those needs. The import of the theory of inspired confidence is that the duties of the auditors derive from the confidence that are bestowed by the public on the success of the audit process and the assurance which the opinion of the accountant conveys. Since this confidence determines the existence of the process, a betrayal of the confidence logically means a termination of the process or function. Corroborating, Carmichael (2004) discusses the social significance of the audit and asserts that when the confidence that stakeholders have in the effectiveness of the audit process and the

audit report is misplaced, the value relevance of that audit is destroyed. Audit provides assurance to the owners, management, investors and all stakeholders of a company as well as provides confidence in audited financial reporting in the insurance companies.

III. Research Methods

This paper employed the secondary method of data collection where existing studies were considered for this paper. Secondary data like books, journal articles, online materials were used to generate data for this paper.

3.1 Concept of Auditor Independence

Auditor's independence may be seen as an auditor's unbiased mental attitude in making decisions throughout the audit and financial reporting process. An auditor's lack of independence increases the possibility of being perceived as not being objective. This means that the auditor will not likely report a discovered breach. Auditor's independence is seen as very important for the reliability and integrity of financial reporting. Auditor independence not only comprises independence of mind but also may be more important in financial reporting, independence in appearance.

Two types of auditor independence were developed by Mautz and Sharaf (1961) namely practitioner-independence (or independence in fact), and profession independence (or independence in appearance). The Code of Ethics for professional accountants sees independence of mind as "the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism". The Code of Ethics defines independence in appearance as the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that firms, or a member of the audit team's, integrity, objectivity or professional skepticism has been compromised (Egbunike & Abiahu, 2017).

Safeguarding auditor's independence is essential for credit-worthiness of an auditor and his or her reputation. The perceived independence of the auditor is not only important to the auditor him or herself but also the client and their audited figures. Beattie, Brandt and Fearnley (1999) argue that there are four factors (or threats) that could influence the perceived auditor's independence. Among the major threats to auditor's independence are the fees received by the auditor for audit and non-audit services, the length of the audit service and auditor rotation. According to Egbunike and Abiahu (2017) the amount of fees for audit services that a client firm pays to its audit firm reflects the level of audit work the latter has to perform in the auditing process.

The impaired independence of an auditor results in poor audit quality and allows for greater earnings management and lower earnings quality. Auditor's independence may be impaired by auditor tenure. As the auditor client relationship lengthens, the auditor may develop close relationship with the client and become more likely to act in favour of management, resulting in reduced objectivity and audit quality. The proponents of mandatory rotation equally argue that the longer an auditor tenure the lesser its objectivity and opponent claiming that it is expensive to carry out. Davis, Soo and Trompeter (2000) agree that there is no empirical evidence about the effect of rotation on auditor cost and quality. Similarly, providing non-audit services, as earlier stressed as in the case of Arthur Anderson, increases the economic bond between the auditor and the client, and there is a widespread belief that

auditors might sacrifice independence in order to retain clients who are paying large amounts in non-audit fees (DeFond et al., 2002).

Audit quality is an important issue that is considered by various interest groups in the company, audit scope and capital market. Because audit quality is barely visible in practice, research in this area has always been faced with many problems of definition. One of the most common definitions of quality audit was that of DeAngelo (1981), which suggests that audit quality is the market assessment of the likelihood that the auditor (i) detects significant distortions of the financial statements or employers accounting system and (ii) reports significant distortions. Arens et al., (2011, p. 9) also see the quality of the audit as “how well an audit detects and reports material misstatements in financial statements, the detection aspects are a reflection of auditor competence, while reporting is a reflection of ethics or auditor integrity, particularly independence”.

Saputra (2015) summarizes his comprehension of what the quality of the audit is by linking it to an audit conducted in accordance with auditing standards generally acceptable that can detect and report material misstatements in the financial statements include disclosure relating either caused by an error or fault or fraud, is able to provide assurance of internal controls, and capable to provide going concern warnings. However, if an auditor does not remain independent, he or she may be less likely to report the irregularities and hence, the audit quality will be impaired.

3.2 Measures of Auditor Independence

As the provision of non-audit services and long auditor-client tenure have been perceived as main threats to auditor independence because of close economic bonds created between auditors and their clients, the provision of non-audit services and auditor-client tenure are widely used as proxies for auditor independence (Tepalagul & Lin, 2015). In this research, the study employs both the provision of non-audit services and auditor-client tenure as proxies to measure auditor independence. Auditor-client tenure is measured as the length of the auditor-client relationship in years. The provision of non-audit services is calculated as the ratio of non-audit fees to total fees paid to the audit firm in each fiscal year.

3.3 Audit Tenure

Auditor tenure is defined in this study as the length of the auditor-client relationship. A rather too long association between the auditor and his client may constitute a threat to independence as personal ties and familiarity may develop between the parties, which may lead to less vigilance on the part of the auditor and even to an obliging attitude of the latter towards the top managers of the company. Aside from this threat to independence, the audit engagement may become routine over time, and if so, the auditor will devote less effort to identifying the weaknesses of internal control and risk sources (Okolie, 2014). Thus, the study will measure audit tenure as; length of auditor-client relationship.

On the impact of auditor tenure on quality audit report, Ikharo (2015) stated that longer tenure-ship of auditor could foster increased knowledge of client business which could improve their capacity to unearth fraud. This would in turn minimize manager's tendencies or possibility to involve in fraud and irregularities. Auditors retained for many years tend to create closer relationship with client and hence increase familiarity between them. This familiarity might foster undue sympathy by auditor to client thereby affect their duty in issuing qualified report whenever need arises. This could therefore increase fraud incentives for clients. The extent of impact long tenure-ship have on independency of auditors would depend on their ability and level of independence itself.

Therefore, tenure of auditor in office is seen as having implications for auditor independence. It is observed that the longer the tenure the more familiarity builds up and auditor and client connection wax stronger. The closer they become more sympathetic to each other. Abubakar and Ahmad (2009) suggested that limiting auditors' tenure would reduce need for closer association and make irrelevant creation of any vested interest in the client.

3.4 Audit Fees

Audit Fees can be defined as the amount charged to a client to conduct specific services by the accountant. The fees may vary by size or based on the type of service provided but there have been many questions from researchers whether it affects audit quality. "The amount of audit fee can vary depending on the assignment risk, the service complexity, the level of expertise required, the cost structure of Public Accountant Firm and other professional considerations" (Rahmina & Agoes, 2014). Studies have shown that larger firms tend to charge higher fees because of the idea that they may provide better quality for audits. Audit quality is challenging to measure and explain due to lack of concept detail. According to Rahmina and Agoes (2014) there are nine elements' firms should implement to meet quality control expectations. They include independence, assignment of personnel, consultation, supervision, employment, professional development, promotion, acceptance, and sustainable clients, and inspection.

Therefore, the professional code of conduct for Chartered Accountants in Nigeria stipulates that audit fee from single client should be over 25% of entire audit revenue. The conclusion from research reviewed by Abubakar and Ahmad (2009) was that firms having large chunk of their entire audit cost is derived from one client are usually worried of losing such client, hence, runs risk of getting their independence jeopardized or compromised. Large percentage of audit fee from one client would likely foster weakening of independency of auditor. One main reason for self-interest threat mentioned in "ICAN professional code of conduct and guide for members" (2009) is 'unwarranted dependent on entire fees from one client, and unduly big percentage would be 25% and above which includes repetitive one-off assignments.

The percentage or proportion of entire audit fees of firm higher than 25% above is considered as undue and is believed would affect or impair independency of such firm. This code maintains that such would constitute or amount to self-interest threat. Abubakar and Ahmad (2009) mentioned that 15% is acceptable level and such criterion is universally accepted level used by ICAEW and Australia generally at which auditors need to consider their independent position.

3.5 Audit Firm Rotation

From the auditor's independence hypothesis associated with auditor tenure in the auditor client relationship, the academics and accounting professions have debated and advocated that auditor rotation could help to maintain auditor's independence, objectivity and professional skepticism. However, there is the argument whether the auditor could truly be independent in the auditor-client relationship given the pressure to maintain their stream of income in a mandatory rotation setting (Odia, 2015). Auditor rotation includes audit-firm and audit partner rotation. The logic behind partner rotation is to bring in fresh perspective to the audit and encourage a "fresh viewpoint" which enhances the technical rigour of an audit.

Seidman in Odia (2015) describes rotation as: "a new auditor, like a new broom, will make a clean sweep and can pick up things not caught by the predecessor." Basically, the researches of the effects of audit partner rotation on audit quality are mixed. For instance, Monroe and Hossain (2013) conclude that the implementation of mandatory audit partner

rotation has improved audit quality because audit firms were more likely to issue qualified going-concern opinions for financially distressed companies following mandatory partner rotation. Fargher et al (2008) also report a positive association between audit partner changes and audit quality. Firth et al (2012) find mandatory audit partner rotations are associated with higher modified audit opinion proxy for audit quality especially for less developed regions. However, Carey and Simnett (2006) report a significant negative association between mandatory audit partner rotation and audit quality when the tenure is more than seven years.

Again, Chi et al. (2009) found that audit quality deteriorates after partner rotation using discretionary accruals as a measure of earnings quality in Taiwan. Bae, Kallapur and Rho (2013) argued that auditor rotation could affect audit quality in the following ways: (1) Long tenure might induce complacency among auditors and make them identify with the client, reducing their independence and could result in stock option backdating (2) Mandatory rotation could keep auditors on their toes since they know that their work will be reviewed by a fresh pair of eyes. (3) Mandatory rotation might create a misalignment, if there is a single auditor best suited for a client, then the client has to forego that auditor's services and settle for another less-well-suited auditor when subjected to mandatory rotation and (4) Rotation could affect audit market concentration and competition, which in turn might affect audit quality.

Mandatory rotation could also affect audit quality through its effect on the audit market structure and the increase or decrease in the choice of qualified auditors for clients. It was argued by the Metcalfe commission in 1977 that rotation will allow more audit firms to enter the market thereby expanding the choice available to clients. However, excessive competition may be bad and mandatory rotation may worsen the problem. Mandatory rotation eliminates the expectation of a continued stream of revenues and thereby liberates auditors from the pressure to bend to clients will prevent the loss of the revenue stream, decreases the penalty for loss of reputation, gives retiring auditor the incentives to clean up before they are rotated out. However, Pitt (2012) pointed out that auditors will slack off and have lower rather than higher incentives to maintain audit quality if they lack any expectation of continued revenues. In fact, the decline in effectiveness of the old auditor is linked to familiarity with clients, less willingness to challenge them and escalation of commitment.

3.6 Concept of Audit Quality

The two most cited definitions of audit quality have been provided by DeAngelo (1981) who defines audit quality as the joint probability that auditors both "discover a breach in the client's accounting system, and report the breach," and by DeFond and Zhang (2013) who believe higher audit quality is "greater assurance of high financial reporting quality." Survey evidence by Christensen et al., in Donovan et al., (2014) suggest that individual investors value auditor competence as indicative of high audit quality whereas audit professionals view compliance with audit standards as a sign of high audit quality. This study does not take position on the exact definition of audit quality. As long as readers believe that lawyers, either from private law firms or the SEC, put in substantial time and effort into constructing a case against auditors by enumerating specific deficiencies of audit quality in a particular engagement, this study empirical analysis is likely to shed some light on the construct validity of the audit quality proxies used in the literature.

As a practical matter, allegations against auditors are framed by both the SEC and the class action lawyers in terms of violations of Generally Accepted Auditing Standards (GAAS). However, this study also believes that allegations about the quality of the auditor's effort or mindset in a particular engagement are not inconsistent with the above-mentioned definitions of audit quality. This study attempts to compile fine-grained data on audit quality is also

consistent with calls by Donovan et al., (2014) to incorporate “the institutional features of the audit process into the definition of audit quality.”

Further explanation was availed by Financial Reporting Council (FRC) in 2006 where they maintained that audit quality is concern with delivering suitable professional advice and opinion supported using important and necessary evidence along with objective judgments. Auditors provide sound service to business-owners when they avail audit reports which are independent, dependable and supported by suitable audit indication. Audit quality is also enhanced when audit is conducted in manners that informed and interested individuals are persuaded that in performance of their professional obligations audit would make avoid any breach and report what was observed. When auditor is dependent, then possibility of report irregularities which impair quality of auditing is common (Tapang et al., 2020).

3.7 Measure of Audit Quality

A large body of research investigates the antecedents and consequences of poor audit quality. Much of this research relies on some variation of the following five proxies to measure audit quality: (i) Big N auditor; (ii) discretionary accruals, signed or absolute value, (iii) going concern opinions, (iv) audit fees, (v) accrual quality, and (vii) meet or beat a quarterly earnings target. The use of these proxies is presumably motivated by cost-benefit considerations. These measures are relatively easy to compute from machine readable databases. However, there is little evidence on the construct validity of these proxies or descriptive accuracy of these measures. In this research, the study evaluates the ability of these proxies to predict detailed, fine-grained, hand-collected allegations related to how auditors actually performed in specific engagements covered in non-dismissed lawsuits and the SEC’s Accounting and Auditing Enforcement Releases (AAERs) filed against auditors. Any discussion of the proxies of audit quality is complicated by how to define audit quality.

3.8 Factors Affecting Audit Quality

The quality of financial reporting has to be maintained in order to ensure some measure of credibility on the information contained in it. Some of the factors affecting audit quality include financial literacy of audit committee members; frequency of audit committee meetings; multiple directorships of audit committee members; independence of audit committee members; external auditors’ quality; and interaction between independence of audit committee and external audit (Adeyemi et al., 2012).

Financial Literacy of Audit Committee Members: according to Song and Windram (2000) a high degree of financial literacy is necessary for an audit committee to effectively oversee a company’s financial control and reporting. The role of an audit committee in overseeing accountability of the management covers a wide scope to include the overall process of corporate reporting. This requires the audit committee to have accounting knowledge in order to acquire an in-depth understanding of financial reporting and improve compliance with regulatory requirements. The need to comprehend the overall financial and non-financial contents of corporate reports is greater considering that listed companies are operating as conglomerates with some having complex group structures and therefore, presenting technically advanced financial reporting contents. Financial literacy reduced fraud in corporate financial reporting. A formal recognition of this requirement was recently made in the U.S. with the passing of the Sarbanes-Oxley Act (2002) which requires each public listed company to disclose whether or not it has a financial expert in the audit committee.

Frequency of Audit Committee Meetings: the effectiveness of audit committee depends on the extent the committee is able to resolve issues and problems faced by the company and to

improve their monitoring function of company activities. A more active audit committee is expected to provide an effective monitoring mechanism. The more frequent the audit committee meets, the more opportunity it has to discuss current issues faced by the company. Since the level of audit committee activity reflects good governance, it should enhance the exercise of oversight function and hence, audit quality. The Code of Corporate Governance in Adeyemi et al., (2012) state that the provision of an institutionalised forum encourages the external auditor to raise potentially troublesome issues at a relatively early stage.

As a best practice, audit committee meeting should be conducted at least once a year without the presence of executive board members. However, the total number of meetings depends on the company's terms of reference and the complexity of the company's operation's operations. At least three or four meetings should be held in addition to other meetings held in response to circumstances that arise during the financial year (Finance Committee on Corporate Governance, 2001). Although the number of meetings may not provide an effective monitoring mechanism, it is noted that an audit committee without any meeting or with small number of meetings is less likely to be a good monitor (Adeyemi et al., 2012).

Multiple Directorship of Audit Committee Members: this refers to the number of director positions held by audit committee members (Adeyemi et al., 2012). Song and Windram (2000) argue that multiple directorships may cause limitations of time and commitment for audit committee members from performing effectively. Audit committee members who held directors' posts of too many companies may have limited time fulfilling their responsibilities. In Nigeria, the importance of experience of audit committee members gained through director positions in other companies is evident in the Ruzaidah and Takiah (2004) study. They argued that multiple directorships of audit committee members were found to have significant positive relationship with corporate social reporting practices and corporate performance. This suggests that audit committee with multiple directorships provides an effective monitoring mechanism.

Independence of Audit Committee: it is an essential factor for an audit committee to ensure that management is held accountable to shareholders (Adeyemi et al., 2012). The Code of Corporate Governance in Adeyemi et al., (2012) state that the majority of audit committee members must be independent and the chairman should be an independent non-executive director. It enhances the effectiveness of monitoring functions. It serves as a reinforcing agent to the independence of internal and external auditors. It is posited that the more independent the audit committee, the higher the degree of oversight and the more likely that members act objectively in evaluating the propensity of the company accounting, internal control and reporting practices. This indicates that an independent audit committee is able to help companies sustain the continuity of business although when they are faced with financial difficulties, they are expected to propose certain action plans to mitigate the problem.

Interactions between Independence of Audit Committee and External Audit: external auditors, through their interactions with audit committees are able to influence the company's internal control strength as well as reporting quality. The audit committee is expected to deal with the appointment and dismissal of external auditors. The Code of Corporate Governance in 2001 spells out that it is the responsibility of the audit committee to discuss with the external auditors the nature and scope of audit before the audit starts and to review the findings of the audit subsequently. Such linkage is expected to produce an interaction effect between the external auditors and audit committees. The negative relationship between independence of board of directors and discretionary accruals is being weakened by the audit of non-Big 5

firms. The finding suggests that negative relationships between discretionary accruals and independence of board of directors and the board financial literacy respectively are stronger for the companies audited by Big 5. This is because the control by independent board of directors and financially literate audit committees becomes more important when the companies do not get quality audit (Aliu *et al.*, 2018).

IV. Conclusion

The study affirms that auditor independence plays a critical role in enhancing audit quality within Nigeria's insurance sector. Independent auditors are better positioned to deliver objective, unbiased assessments of financial statements, thereby strengthening the credibility and reliability of financial reporting. The findings reveal that key elements such as audit firm tenure, non-audit service restrictions, and regulatory oversight significantly influence the degree of auditor independence and, by extension, the quality of audits conducted. Despite the progress made, challenges such as long auditor-client relationships, inadequate enforcement of auditor rotation, and the provision of non-audit services continue to undermine audit objectivity in the sector. Strengthening institutional frameworks, enforcing compliance with ethical standards, and promoting auditor accountability are essential steps toward maintaining high audit quality.

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