Received on : 05/02/2020 Accepted on : 17/02/2020 Publication Date: 29/02/2020

Auditor's Independence as a Panacea for Sustainability of Businesses in Nigeria

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Abstract: *This paper examined the perceived effect of audit independence on audit quality and sustainability of businesses in Nigeria. It identified the problem of rampant liquidation of companies on the heels of their supposedly sound and robust Annual Financial Statements with audit reports that show opinions of ''true and fair view'' by auditors. It therefore, set out to examine the effect of audit independence on the quality of audit report and sustainability of businesses in Nigeria as its main objective. With three research questions, it hypothesized that Audit independence is significantly critical to quality audit and sustainability of firms in Nigerian. It also conjectured that rendering non-audit services, receiving high audit fees and long audit tenure do significantly affect audit independence in Nigeria; and thirdly that the independence of the auditors can significantly reduce creative accounting practices and enhance business sustainability in Nigeria. The study applied a survey research design and collected primary data with the aid of a questionnaire from a sample statistically drawn from a population of auditors in major audit firms in Nigeria. The hypotheses were tested using ANOVA and regression models with the aid of Computer Special Package for the Social Sciences (SPSS) version 20.0. The findings among others are that Audit independence is critical and significantly affects both audit quality and sustainability of businesses in Nigeria. The paper concluded that Audit independence (an essential ingredient of objective audit) is impaired by systemic and non-systemic threats and results to poor audit quality that has aided high rate of business mortality in Nigeria. It recommended inter alia, that the National Assembly should review the relevant sections of the Company and Allied Matters Act (CAMA) 1990, relating to auditor independence with a view to plugging the loopholes contained in the Act. While an independent central body in the fold of the stock exchange be established to appoint, dismiss and remunerate the external auditors while clients pay a certain percentage of their profit before tax to it.*

Keywords: *Audit independence, audit quality, ethical code, objectivity, audit report, sustainability.*

1. INTRODUCTION:

The rate at which businesses spring up and liquidate in Nigeria is becoming alarming to say the least. Stories abound of numerous businesses that are closing shop in Nigeria and relocating to other countries even within the West African sub-region. The same applies to banks. For the firms that close shop in Nigeria and open up elsewhere, there is really no problem. But for those that close shop and cannot reopen anywhere, that is, get liquidated, that is where the problem lies. Sustainability is greatly endangered. Sustainability connotes ability to remain in business over a long period profitably. It shows existence of goodwill.

Fundamentally, the quality of the audit service rendered by the auditor is to a great extent affected by the independence of the auditor. Auditor independence is a cornerstone of the auditing profession, a crucial element in the statutory corporate reporting process and a key prerequisite for adding value to an audited financial statement (Mautz & Sharaf, 1961). The agency relationship that exists between the owner (shareholders) and the managers of the company necessitates the services of an auditor whose report on the financial statement has to be unbiased and impartial view of the company's financial activities in other to be useful to users (Stanley & DeZoort, 2007). Companies like Xerox, Enron and WorldCom, amongst others, have disclosed improprieties in their financial statements amounting to billions of dollars (Bajaj, Gunny & Sarin, 2003). Xerox disclosed that it had incorrectly realized $6.4 billion in revenues and overstated its pretax income by $1.41 billion over five years from 1997 to 2001. In some of these high profile audit failures, auditor misconduct has been alleged. For example, according to the wall street journal (2003), the SEC filed civil fraud charges against KPMG for its role in auditing Xerox. The accounting improprieties at Enron regarding related party transactions led not only to its demise but also the failure of its auditor, (Bajaj, Gunny & Sarin, 2003). The probability that the auditor will uncover a breach and disclose such discovery is what De Angelo (1981) describes as audit quality. If the auditor independence of mind and in appearance is compromised then the auditor is less likely to report the irregularities and this would result in the impairment of the audit quality. To the audit profession, independency is a fundamental issue and so where this cannot be assured, the auditor should not accept the responsibility of auditing a firm's account (Rick & Roger, 1999). The value of auditing depends heavily on the shareholders and the general publics' perception of the independence of auditors. Hence, it is not surprising that independence of auditors is the first subject matter addressed in the professional rule of conduct. (Alvin & Loebbecke, 1997).

In light of the ever present importance of the independence of auditor and in the aftermath of the global economic crises, which first made itself felt in 2008, several international bodies like the International Auditing and Assurance Standards Board (IAASB) and the Public Company Accounting Oversight Board (PCAOB), proposed new requirements like the importance of the interactions between the various stakeholders (auditors, management, those charged with governance, regulators and users) with the new auditor reporting, to enhance audit quality as well as address market concentration of audit firms including revising auditor independence.. The paper is organized in five parts. Part one is the introduction which highlights the problem of the study and its main and specific objectives. Part two shows the methodology of the study and part three contains the review of related literature. Part four presents the data collected from the field and the analysis therein including the findings of the study. Part five concludes the work and makes recommendations including areas for further study.

1.1. **Methodology:**

The paper adopted the survey research design and the area of the study is Nigeria. The population is the auditors and accountants from selected big audit firms in Nigeria. These are; Akintola Williams Deloitte, Price Water House Coppers, KPMG, Fred Okonta and Co., Ugochukwu Ukah and Co., Adenusi and Co., Kunle Adeleke and Co. However, the actual number of this population is unknown and as such a sample size of 84 was selected using statistical formula for choosing a sample size from an infinite population thus: n = pq where n = sample size

p = success rate (70%)
q = failure rate (30%)
e = error margin (5%)

$$n = \frac{0.7 \times 0.3}{0.05^2} = \frac{0.21}{0.0025} = 84$$

A simple random sampling technique was applied to pick respondents from the 7 audit firms almost on equal basis of 84 ÷ 7 = 12 each.

Table 3.1: Shows the Sample Frame

S/N	Audit firm	Sample size
1.	Akintola Williams Deloitte	12
1.	Price Water House Coppers	12
2.	KPGMG	12
3.	Fred Okonta and Co	12
4.	Ugochukwu Ukah and Co	12
5.	Adenusi and Co	12
6.	Kunle Adeleke and Co	12
	Total sample size	**84**

Source: Field Survey, (2015).

Primary data was collected using questionnaire. The questionnaire was structured using concise language and in a simple form to avoid ambiguity. The 5-point Linkert style of questionnaire structure was adopted. The range covered from (1) Strongly Agreed, (2) Agree, (3) No idea, (4) Disagree and (5) Strongly Disagree. The instrument was tested for reliability and validity. The techniques for data analysis were both descriptive and inferential statistics. The former included presentation of the data using frequencies and percentages, while the later included analysis of variance (ANOVA) and simple regression analysis at a 5% level of significance. Decision as to whether to accept or reject the hypothesis and reject or accept the alternate hypothesis respectively was based on 5% alpha level of significance with the aid of Computer Special Package for the Social Sciences (SPSS) version 20.0. The formula for ANOVA is given as: SSW = SST – SSB where SST = total variation (total sum of squares). SSB = variation between groups (sum of squares between). SSW = variation within groups (sum of squares within), while the formula for Simple Linear Regression is: Y= a + Bxí + eí that is y is the response variable, xí is the controlled variable, as is the intercept. B is the slop and eí is known as error component.

1.2. **Distribution and Collection of Questionnaire**

Table 3.2: Copies of the Questionnaire Distributed and Returned.

S/N	Name of Audit Firm	Number Distributed	Number Returned	Percentage Returned
1.	Akintola Williams Deloitte	12	9	10.71%

2.	Price Water House Coppers	12	12	14.28%
3.	Fred Okonta and Co	12	11	13.10%
4.	KPGMG	12	9	10.71%
5.	Ugochukwu Ukah and Co	12	12	14.28%
6.	Adenusi and Co	12	11	13.10%
7.	Kunle Adeleke and Co	12	10	11.90%
	Total	**84**	**74**	**88.08%**

Source: Field Survey, (2015).

A total of 84 copies of the questionnaire were administered, and 74 of them were properly filled and returned. This was possible because the respondents were encouraged to fill the questionnaire on the spot and were collected accordingly. The remaining 10 copies constituting 11.92% were not filled correctly. Therefore 74 copies of the questionnaire were analyzed in the study.

1.3. EMPIRICAL REVIEW:

The second half of the 20th century saw various studies in both the academic and professional literature about auditor independence and audit quality. These studies were carried out by various researchers from different viewpoints and in different circumstances. The following studies are very interesting and useful for this research. Barbadillo and Aguillar (2008), in a study of the relationship between the duration of audit engagement and audit quality specified a model to show the functional relationship between the dependent variable (value of audit quality) and the main explanatory factor (tenure). Using a sample of non-financial Spanish companies quoted on Madrid stock exchange, the study reveals an inverse relationship between auditor tenure and audit quality and suggests that auditors tend to be more dependent in the first year of auditing engagement. The study concludes that the shorter the auditor's tenure, the more they behave in a dependent fashion. Knechel and Vanstraelen (2007) find that longer auditor tenure neither increase nor reduce the likelihood of auditor's issuance of going concern report for a company that subsequently went bankrupt. However, the study involving going-concern report in the US suggest that audit reporting failures are significantly higher in the first few years of auditor-client relationship (Geiger & Raghunandan, 2002). DeAngelo (1981) noted that audit quality consists of two components: auditor competence and auditor independence. Deterioration in audit quality in a short tenure audit may be due to either lack of competence or loss of independence, while a loss in quality in a long tenure audit is most likely due to a loss of independence (Knechel & Vanstraelen, 2007). Moizer (1997) also noted that the appraisal of the indices of measuring the quality of the audit service is not without its challenges since audit quality is typically unobservable (Francis, 2004). Thus, according to Hay and Knechel (2010), auditing could be categorized as a type of credence good and hence auditors add credibility to corporate financial reports by expressing an opinion about the true and fair representation but only in so far as the users of financial statements perceive that opinion as valuable. In this regards, Hardies, Breesh and Branson (2010) argued that audit quality is not simply a linear function of auditor competence and auditor independence, but also on the market's perception about the value of the auditor's report which is the result of the perceived competence and the perceived independence of the auditor. Enofe, Ngbame, Okunega and Ediae (2013), in a study empirically evaluate the relationship between audit quality and auditors independence. They specified a model to show the functional relationship between the dependent variable (audit quality which was measured by the fees charged by the audit firms) and the independent variables (audit tenure, board independence, and ownership structure). Using Nigerian quoted companies as a reference point, the results indicates that as auditor independence increase, the quality of the audit also improves and as the independence of the board and the ownership structure increases, the quality of the audit reduces and therefore recommends that auditors should strive for independence in other to ensure quality audits.

2. PRESENTATION OF FINDINGS AND ANALYSIS:

2.1. Presentation of Data:

2.1.1. Characteristics of the Respondents

In this section, the respondents' sex, professional qualification, years of experience as an auditor and department of the sampled respondents were discussed as seen in table 4.1.

Table 4.2: General Characteristics of Respondents (n=74)

S/N		General Characteristics	Number	Percentage
1.	**Sex**	Male	43	58.3%
		Female	31	41.7%
			Grand Total=74	
2.	**Qualification**	ANNA	19	25%

		ICAN	44	59%
		ACCA	11	16%
		Other Specify	0	0%
			Grand Total=74	
3.	**Years of Experience**	Less than 1 year	8	11%
		One to 5 years	26	35%
		Six to 10 years	19	26%
		10 years and above	21	28%
			Grand Total=74	
4.	**Department**	Audit	74	100%
		Others	0	0%
			Grand Total=74	

Source: Administered Questionnaire Analyzed, (2015).

Table 4.2 shows a summary of the general characteristics of the respondents. It was seen that most of the auditors that wrote this report were male (58.3%) while specifically 41.7% of the auditors were female. This shows that this study was not gender bias.

Furthermore, the professional qualification of the respondents shows that 59% of the respondents were ICAN members; ANAN members were 25% and ACCA members 16%. This shows that the study made use of qualified professional staff and they have sufficient auditing and investigation knowledge and would give objective answers to the questions asked. Hence, it will increase the internal validity of the study. Again, an examination of years of experience of the respondents revealed that 11%, have less than 1 year experience, while 35% of the respondents have acquired from one year to five years' experience, while 26% and 28% affirmed that they have experience ranging between six to ten years and above ten years respectively.The responses from the respondents indicated that 100% of the respondents were from audit department. This implies that all the respondents sampled in this study, are auditors in their various organizations and also experienced, this helped in the quality of answers provided by them (the respondents).

2.1.2. Analysis of Data According To Research Questions

Here, answers provided by the respondents to the questionnaire items were analyzed and interpreted to arrive at conclusion. The primary data were analyzed, the hypotheses were tested and discussion of findings was based on the results of the analysis.

2.1.3. Research Objective 1/ Question 1/Hypothesis 1:

This research objective seeks to ascertain the extent to which auditor independence is critical to audit quality and sustainability of businesses in Nigeria. Questions 5 and 6 in the questionnaire were administered to the respondents to elicit data to achieve this objective. To what extent is auditor independence critical to quality audit and sustainability of businesses; also to what extent does auditor independence affect audit quality and sustainability of businesses in Nigeria? Table 4.2 below shows the responses to the questions.

Table 4.2: Shows the Extent to which Auditor independence is Critical to Quality Audit in Nigeria.

Responses to Question	**Effect on audit Quality**	**Percentage**	**Effect business sustainability**	**Percentage**
Strongly Agree	36	48.6%	14	18.9%
Agree	18	24.3%	35	47.3%
No idea	12	16.2%	15	20.3%
Disagree	8	10.8%)	8	10.8%
Strongly disagree	0	0%	2	2.7%
Grand Total	**74**	**100%**	**74**	**100%**

Source: Administered Questionnaire Analyzed, (2015).

Table 4.2 indicates that 48.6% of the respondents strongly agreed that auditor independence is affects to quality audit in Nigeria. Again, 24.3% agreed. While (16.2%) stated that they have no idea and 10.8%disagreed that auditor independence is critical to audit quality. However, the analysis shows that 18.9% of the respondents strongly agreed that auditor independence is critical and affects business sustainability. Again 47.3% of the respondents agreed while 20.3% indicated that they have no idea and 10.8% and 2.7% affirmed that they disagree and strongly disagree respectively.

2.1.4. Test of Hypothesis One

Received on : 05/02/2020 Accepted on : 17/02/2020 Publication Date: 29/02/2020

As earlier stated, one- way Analysis of Variance was used in testing the research hypotheses in order to determine whether significant difference exists between the dependent variable (Y) and independent variable (X). However, in the test of first hypothesis, auditor independence is the dependent variable while the independent variables are the audit quality and sustainability of businesses in Nigeria.

Null hypothesis Ho_1: Audit independence does not significantly affect audit quality and sustainability of businesses in Nigeria.

Alternate Hypothesis H_{A1}: Audit independence does significantly affect audit quality and sustainability of businesses in Nigeria.

The null hypothesis was tested using Analysis of Variance. The result is shown in Table 4.3.

Table 4.3: Shows the Analysis Of Variance (ANOVA) and Result.

Extent of Auditor independence	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	39.284	4	13.095	3.749	.015
Within Groups	244.500	70	3.493		
Total	283.784	74			

Source: From ANOVA Table.

2.2. Hypothesis Result:

The result of the first hypothesis shows that audit independence is critical and significantly affects both audit quality and sustainability of businesses in Nigeria (F- Cal = 3.749, P-sig at 0.000, $P < 0.05$ significant level). The null hypothesis was therefore rejected. The detail of this result was shown in Appendix 1.

3. DISCUSSION OF FINDINGS:

3.1. Extent to which audit independence is critical to quality audit and business sustainability in Nigeria.

The study shows that audit independence is critical to quality audit and business sustainability in Nigerian firms. This confirms and reinforces the need to address poor audit quality and high mortality of companies in Nigeria from the prism of audit independence. Little wonder that there are copious provisions for ensuring audit independence by audit guidelines, professional ethical codes and sections of the Companies and Allied Matters Act. Several reviewed literature also attest to the need for audit independence. They all allude to the unanimous belief that audit independence refers to the ability of the external auditor to act with integrity and impartiality and free from any external influence during his/her auditing functions (Watkins et al, 2004;Geiger & Raghunandan, 2002; Myers et al., 2003; Stanley & Dezoort, 2007; and Enofe et al, 2013). And that this independence has the possible effect of improving the audit quality. Audit independence engenders sound corporate governance since all stakeholders' interests are equally factored into the audit work and audit report therefrom. However, poor audit report and constant company liquidation continue because auditors get unduly influenced by external factors especially the management. Auditors are also products of the environment in which the ply their trade and the Nigerian business, social and political environment is replete with monumental corruption.

4. SUMMARY OF FINDINGS:

1. Audit independence is critical and significantly affects both audit quality and sustainability of businesses in Nigeria. Management should create an independent environment for auditors to carry out their duties and where this is compromised, auditors should insist.
2. Rendering non-audit services, receiving high audit fees and long audit tenure do significantly and negatively affect audit quality and sustainability of businesses in Nigeria.
3. Audit independence can significantly reduce creative accounting and reduce misleading audit reports. Accounting bodies in collaboration with other stakeholders should put adequate measures that would enhance audit independence that has the potential of reducing negative creative accounting practices and boosting good corporate governance.

5. CONCLUSION:

Audit independence, a critical ingredient of effective audit, positively impacts audit quality and sustainability of businesses in Nigeria. This is the major finding of this work. It adopted a survey research method using a sample from a population of suitable respondents made up of professional accountants and auditors whose opinion are considered useful in drawing inferences about the topic. Audit independence is impaired by systemic and non-systemic threats and results to poor audit quality that has aided high rate of business mortality in Nigeria. These threats include non- strict adherence to professional ethical codes, rendering non-audit services, receiving high audit fees and long audit tenure. Lack of audit independence engenders negative creative accounting practices which negate sound corporate governance culture and lead to early liquidation of companies. The relevant sections of the CAMA 1990 leave loopholes for unscrupulous auditors to compromise their independence and refuse/fail to apply honesty, objectivity and due care in the conduct of audit and the report therefrom. The legal framework as well as the professional associations should be upgraded and sharpened to effectively monitor and sanction cases of compromised audit independence from which ever quarter.

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