

AUDITORS' PERCEPTION OF THE EFFECT OF AUDIT RISK ASSESSMENT ON CLIENT ACCEPTANCE DECISION

MUIDEEN ADESEYE AWODIRAN & ISIAKA KAREEM JIMBA

Department of Accounting, Afe Babalola University, Ado-Ekiti (ABUAD), Nigeria..

ABSTRACT

Client acceptance decision is the decision of an auditor to accept a new client or retain an existing client. However, there appears to be no consensus on factors affecting auditors' client acceptance decision. This study assessed the effect of audit risk assessment on client acceptance decision by eliciting the opinions of firms of Chartered Accountants. The study population comprised of accounting firms that are located in Ibadan (South Western Nigeria) and limited to those that are accredited by the Institute of Chartered Accountants of Nigeria (ICAN). The study administered 100 copies of questionnaire to the study respondents with 92 copies returned completed. The study employed probability regression analysis (probit) to analyse the data collected. The findings of the study revealed that inherent risks, control risk as well as detection risk are significant factors affecting auditors' client acceptance decisions. The study recommended that auditors should have a comprehensive assessment of various risks of existing and potential clients before accepting

Introduction:

The concept of corporate governance was first introduced in 1999 by the Organization for Economic Co-operation and Development (OECD). OECD defines corporate governance as the system by which companies are run and controlled as well as the manner in which liabilities and rights are shared by the main actors (shareholders) of an entity (Timea, 2010). Managers are paid professionals with their own self interests. In order to prevent managers from making decisions that benefit themselves but that are detrimental to others, a system of checks and balances is put in place. This system is called "corporate governance". At a minimum, governance systems include a board of directors (to hire,

engagement for effective audit and to prevent audit failure and corporate scandals that may follow.

Keyboard: Auditor's perception, Audit Risk Assessment, Client-Acceptance Decision

fire, and compensate management) and an external auditor (to make sure financial statements are accurate). Other constituents such as creditors, customers, suppliers, labour unions, the media, and regulators also play a role in corporate governance by making sure that management behaves appropriately.

The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. Corporate governance is therefore about what the board of a company does and how it sets the values of the company, and it is to be distinguished from the day to day operational management of the company by full-time executives.

Audit risk is the risk that the auditor may express inadequate audit opinion when the financial statements are materially inaccurate. The concept of audit risk is very complex concept in the overall audit process. According to the IAASB Glossary of Terms, audit risk is defined as "The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of material misstatement and detection risk"

The audit risk is considered as a unity of these two components: risk assessment - risk during collecting and evaluating audit evidence; and business risk - economic impact of the audit assessment. The auditor always plans sufficient procedures that will minimize the audit risk and maximizes the detection of errors, fraud and other irregularities in the financial statements. It is especially important for the auditor to identify the areas of high risk in which mistakes are repeated. This risk is composed of inherent risk, control risk and detection risk. The auditing profession is one of uncertainty and high level of business, financial and litigation risk and with the collapse of corporations such as Enron, Tyco International, WorldCom, Global Crossing, BCCI, there has been more stringent process to ensure that auditors exercise due professional care and skill when performing audit assignments. Therefore, the requirement for professional judgment in assessing risk in this uncertain environment is a prerogative to the auditor. In the evaluation of audit risk, the components of corporate governance

are encompassed in control risk, which seems to be determined by the management's attitude toward internal controls, corporate governance quality and the audit committee quality, expressed in terms of audit committee independence and audit committee financial experiences (Johnstone, 2000; Krishnan, 2005; Cohen, 2010).

Johnstone and Bedard (2003) show that good risk management process on client acceptance decision is important key to decrease auditor's business risk in dealing with litigation in the future. Huss and Jacobs (1991) show that risk evaluation (where risk consists of audit risk, client business risk, and auditor's business risk) is essential first step in client acceptance decision. In considering the client acceptance decision, the auditor should make an evaluation on the risk level that the auditor is facing in the audit process and how to handle the risk towards each of his client. This is a very important factor because the client will determine the client's portfolio owned by the auditor (Simunic and Stein, 1990; Bedard and Johnstone, 2004). Besides by evaluating this risk, the auditor can minimize the possibility of litigation which can occur because of an error made in performing of audit process.

The focus on corporate governance has grown exponentially over the last decade. As evidenced by the increasing number of codes of best practice developed by leading international bodies such as the OECD, the Commonwealth and CalPERS, corporate governance reform has now become a key global issue. Not only do factors such as the increasing globalisation of financial markets, the growth in multinational corporations and regional economic developments motivate the need for good corporate governance, but the recent spate of large corporate collapses such as Enron and WorldCom in the United States and HIH Insurance in Australia clearly signal the urgency for significant improvements in corporate accountability and reporting.

In Nigeria, the spate of corporate failure witnessed in the financial sector in early 1990's brought auditors into focus and caused the Nigerian public to question the roles of auditors (Ajibolade, 2008). Audited financial statements are a joint product of both the auditor and the auditee (Antle & Nalebuff, 1991; Gibbins, McCracken, & Salterio, 2007; McCracken, Salterio & Gibbins, 2008). As a result of notorious financial scandals such as WorldCom and Enron in the US and, on the European scene, the financial crises at Parmalat in Italy, also in the Netherlands, and Batam and Affes in Tunisia, among others, the reliability of financial reporting and the audit profession have fallen under a shadow of suspicion, and

the role of auditor-auditee negotiation has received increased regulatory attention in recent years.

Evbodaghe (2009) and Sikka (2009) opined that it seems that auditors face credibility issues, thus, there is widespread public perception that auditors lack independence from company executives and as a result, there is concern about the quality of audits. The involvement and culpability of accountants and audits in unethical practices and conflicts of interest have long been documented by critical accounting scholar in developed and developing countries (Bakre, 2007; Gyein-Paracini H. & Gendron, 2010). The Nigerian business Community is also plagued with ethical problems associated with business behaviour and corporate scandals involving large companies, such as African Petroleum Plc, Cadbury Nigeria Plc and Unilever Plc have been reported (Bakre, 2007).

The level of uncertainty and risk in the audit environment influences audit strategy establishment and further increase the risk of audit failure. Hence auditors are required to make risk assessment as a basis for designing an audit plan that provides reasonable assurance of detecting misstatements in corporate financial statements (Asare & Wright, 2002). Monroe and Ng (2000) viewed the auditor risk assessment process as a belief revision task, with prior year assessment serving as a starting point.

The assessment of the audit risk is particularly pivotal in the client-acceptance decisions when auditors have to evaluate features of their potential new clients when making client portfolio management decisions (Bedard & Johnstone, 2004). Scholars pointed out that auditors spend more effort in evaluating financial risk, litigation risk and audit risk when assessing potential new clients (Johnstone, 2000; Johnstone & Bedard, 2003). Very few studies analysed the set of information and client's features which auditors use in the evaluation of audit risk in the client-acceptance decision. Since there is a little evidence in the Nigerian context on how auditors evaluate the audit risk of new clients, the study aims at reducing the gap in the literature on the subject matter.

Literature Review

The accounting environment is changing rapidly, with an increased emphasis on the complex client acceptance/continuance decision. Increased litigation exposure and fierce competitive pressures among audit firms for clients have driven the auditors to be engaged in risk-management practices in the audit market (Huss & Jacobs 1991; Francis & Reynolds 1998; Johnstone 2000). These

risk-management practices include, among other activities such as screening out high-risk companies, the outplacement of accounting employees into the boardrooms of existing (and prospective) clients.

One of the most underestimated determinants of a successful audit is the client acceptance decision. While client acceptance guidance exists, it is general in nature, and scattered across various promulgations. In the auditing environment, there are many types of risk. Inherent risk and control risk are of particular interest when initially assessing whether or not to accept a company as a client. Generally, risks that are specific to an industry are referred to as inherent risk¹ while those based on a company's internal controls over financial reporting are referred to as control risk (Whittington & Pany, 2012). These risks and overall client business risk are evaluated by an audit firm to determine whether it has the ability to conduct an audit in terms of its business risk.

Audit risk is "the risk that the auditor may issue an unqualified opinion on materially misstated financial statements (AICPA 1983, AU 312.02)." There are certain factors that will impact the level of audit risk. These factors include a high volume of significant year-end transactions, financial reports not prepared in a timely manner (i.e. inherent risk) and material weaknesses in internal controls (i.e. control risk) (Colbert 1996). More experienced audit partners tend to rank management's attitude toward internal controls as the most important audit risk factor (Johnstone 2001). These factors may not be detrimental to the client, but the issuance of an unqualified opinion when not justified can be devastating to an audit firm

Johnstone (2000), found that in reaching the client acceptance decision, auditors evaluate the client-related risks as well as the audit firm's risk of loss on the engagement. If the client-related risks are evaluated to be extremely high, then auditors have been shown to adjust the elements of the audit risk model (Houston, 1999), and also have the option to use risk-adaption strategies (e.g. adjusting the audit fee, the data collected, etc.). However, Johnstone (2000) found that auditors do not use risk-adaption strategies to mediate the effects of the client-related risks. As a result, it would appear that the only other possible way of accepting an engagement is by reducing the client-related risks.

She developed a risk-based model where the client-related risks are evaluated and then the audit firm's risk of loss on the engagement is assessed. In other words, she found that auditors' evaluations of the (prospective) client's inherent

and control risks affected their evaluations of the client's future financial prospects.

These significant evaluations, in turn, affected auditors' evaluations of their firms' risk of loss on the engagement via lack of engagement profitability or future litigation. Johnstone concluded that auditors do use their evaluations of client-related risks and their own firms' risk of loss on the engagement to screen out undesirable clients. Huss and Jacobs (1991), Francis and Reynolds (1998), Jones and Raghunandan (1998), Pratt and Stice (1994), Hill (1994) and Clarkson and Simunic (1994) have all reached similar conclusions, that is, pre-engagement risk assessments are regarded as an important factor in the engagement outcome.

In order for the auditor to form an overall evaluation of the riskiness of the client, three relevant and interrelated risks must be evaluated, according to Johnstone (2003). These risks involve the client's business risk (i.e., the client's financial condition and industry membership), the audit risk (i.e., inherent risk, control risk and detection risk), and the auditor's business risk (i.e., the likelihood that the auditor will suffer a loss from the engagement).

According to Asare (1994) and Johnstone and Bedard (2004), the client acceptance decision (CAD) process consists in attracting desirable or potential clients and deciding whether to submit a bid to perform financial statements audit for those clients who may be interested in the audit firm's services. If the audit firm decides to submit a bid and the potential client retains the offer, the newly accepted client is added to the audit firm's portfolio of clients (Simunic & Stein, 1990; Johnstone & Bedard, 2004). The new client can also initiate the CAD process and approach the audit firm to show his interest in becoming one of its audit clients. In this case, the audit firm assesses the prospective client and either rejects or decides to submit an offer of service that can be ultimately accepted by the new client. In practice, the process can be more complex and iterative as it generally entails several discussions and negotiation rounds.

The client continuance decision (CCD) applies to existing audit clients only and does not apply to the new ones. It consists in evaluating on-going audit clients and deciding whether to continue offering audit services to them. Depending on the outcome of the client continuance evaluation, two types of decisions are distinguished: the retention decision and the resignation decision. The retention decision is the auditor's decision to continue the audit engagement with the client for the subsequent year. The resignation decision is the auditor's decision to discontinue the audit services relationship with the existing client. Accordingly,

resignation implies the elimination of undesirable clients, including those who are evaluated as excessively risky and those that no longer fit the audit firm targeted clientele, for example in terms of the industries privileged by the firm (Johnstone & Bedard, 2004; Shu, 2000).

Resignation and retention decisions are the two sides of a coin. They are the two mutually exclusive outcomes of a same decision process resulting either in keeping the client (client retention) or not (auditor resignation). Nonetheless, a critical difference between the two decisions lies in their respective drivers. Resignation is generally caused by several events that are unfavorable to the client-auditor relationship, bringing the auditor to end the audit relationship. Conversely, the retention decision is taken not only after major facts have come to light, but also, systematically and periodically, generally on an annual basis, even in the absence of trigger events (Stanley, 1999).

Obviously, CAD and CCD are similar. Both require the auditor to evaluate the audit client and then decide whether to provide audit services for him. For instance, Stanley (1999) argues that the risks as well as the profitability related to an audit engagement must be considered within the decision to accept a new client or to pursue a relationship with an existing client. In the extant auditing literature, the CAD and the CCD are seldom differentiated (Schroeder & Verrault, 1987; Huss & Jacobs, 1991). Some authors maintain that “the decision to continue or terminate a professional relationship is similar to the decision to accept a client” (Asare, 1994). As a result, the CCD is commonly viewed as a “mechanical” replication of the CAD (Colbert, 1996; Goldwasser, 1988). In other words, the auditor decides to continue the engagement for an additional year whenever the client continues to meet the acceptance criteria.

The risk of audit is that the auditor may present an opinion that the financial statements are not presented fairly and impartially when they actually are or that financial statements taken as a whole are fairly represented when they are not. Audit risk is the risk faced by auditors that they will fail to disclose material errors in the financial statements. It is expected from them to give reasonable assurance that there are no such errors (Whittington & Pany, 2012).

Practitioners, standard setters and scholars agree that Audit Risk (AR) is the likelihood that auditors fail to issue a correct and fair opinion on the financial statement of a client firm. This can occur when either auditors fail to detect a material misstatement and, thus, issue an unqualified opinion instead of a modified opinion or if the auditor overestimates the audit risk and thus issue a

qualified opinion rather than an unqualified one (ISA 200). An unqualified opinion is the independent auditor judgement in which auditors state that the financial report is fairly and appropriately presented in accordance with Generally Accepted Accounting Principles (GAAP). Instead, a qualified opinion is when auditors issue a judgement in which the client firm has an annual report that is not in accordance with GAAP and/or the information collected by auditors are limited in scope. The concept of materiality recognizes that some matters are important for fair presentation of financial statements in conformity with GAAP, while other matters are not important. Statement on Auditing Standards No. 39 and 47 (American Institute of Certified Public Accountants (AICPA) 1997) provide the auditors with the guide to assess the audit risk and define the audit risk model, identifying the key determinants of the audit risk which are Inherent Risk (IR), Control Risk (CR) and Detection Risk (DR). The audit risk model may be expressed as follows:

$$AR = IR \times CR \times DR$$

According to ISA 400, in developing the overall audit plan, the auditor should assess inherent risk at the financial statement level. In developing the audit program, the auditor should relate such assessments of material account balances and classes of transactions at the assertion level. Hayes (1999) noted that inherent risk is the risk that an account balances or class of transactions contains material misstatements, assuming no related internal controls exist. To assess inherent risk, the auditor uses professional judgment to evaluate numerous factors at the financial statement and the account balance and class of transaction levels. At the financial statement levels these factors include the integrity of management, organization and management structure, pressures on management to report certain financial results, the nature of the entity business and factors affecting the industry in which the entity operates (Whittington & Pany, 2001; Adeniji, 2004; Gupta, 2005). At the account balance and class of transaction these factors include financial statement accounts to be susceptible to misstatements, the complexity of the underlying transactions and other events, the degree of judgment involved in determining account balances, susceptibility of assets to loss misappropriation, the completion of unusual and complex transactions and transactions not subjected to ordinary processing. Wustemann (2004) noted that inherent risk is influenced with following factors: asset flow, the assessment method used according to accounting assumption; general economic situation and technical development. O'Leary (2000); Wah

(2000) and Hunton (2004) stated that inherent risk is often heightened because issues such as inadequate trained personnel, improper data input, and interdependencies among business processes can arise.

Therefore, an effective and efficient audit requires proper assessment of risk and proper allocation of effort subsequent to risk assessment (Blay, 2003). Bell (2005) stated that the relevance of risk assessment in auditing continues to be emphasized in literature as evidenced by issuance of new risk assessment standards. These standards suggest that a financial statement audit is a recursive process in which auditors make risk assessments related to various management assertions based on evidence. Control risk seems to be determined by the management's attitude toward internal controls, corporate governance quality and the audit committee quality expressed in terms of audit committee independence and audit committee financial experience (Cohen, 2010). Both inherent risk and control risk have been found to be closely linked to audit adjustments (Ruhnke & Schmidt, 2011).

Inherent risk is a doubt arising from an individual or group error reports, assuming that there was adequate internal accounting control. The auditor assesses the level of inherent risk based on his/her professional judgment, taking into account factors that affect the appearance of inherent risk and whose occurrence cannot be controlled. Those factors can be conditions in the environment of the enterprise in the sense of the relationship: enterprise-customer, and which affect the financial statements and specific accounts and transactions which are subject of examination. General economic conditions significantly affect the management level of inherent risk, and thus the misstatement of the financial statements (Johnstone, 2014). Factors of environment could be unusual pressures on company's management, nature of the business, experience and knowledge of the managers that prepare financial statements.

Some transactions and accounts are more susceptible to errors and irregularities than others. The important factors that determine the level of inherent risk are susceptibility and account errors, complexity of individual transactions, the susceptibility of property loss and fraud, addition of a not usual and complex transactions at the end of the year and transactions which are subject to strange way of processing and so on. Unusual relationships between accounts give to the auditor "early warning" of the existence of inherent risk (Johnstone, 2014).

Control risk is the risk that a material misstatement that could occur in a relevant assertion will not be prevented, or detected and corrected on a timely basis by the entity's internal control. It is a function of the effectiveness of the design and operation of internal control in achieving the entity's objectives relevant to preparation of the entity's financial statements. Bedard and Graham (2002) indicated that the following factors would influence the assessment of control risk: the organizations and staff of accounting department of auditees; the internal conditions of auditees; safety of EDP system; management information for detecting corporate activities. Brazel and Agoglia (2007), Wright and Wright (2002), Bulkeley (2006) noted that control risk can also increase as the focus shifts from segregation of duties to greater access to information, supervisory review and supplemental internal control applications.

Control risk indicates that the structure of internal control in the company will timely prevent or detect incorrect material claims. Auditors have to document the elements of the controlling structure based on the following procedures: a review of previous audit reports, by interviewing the staff of the sector of supervision regarding the execution of their duties and updating of working documents from the previous revision (Aceski & Trajkoski, 2014).

Despite the inherent risks and control risks, the audit practice encompasses also of detection risk which results from an inadequate or insufficient audit procedures, and may include testing of some transactions which is based on random (or for some reason) selected samples of transactions. This type of audit risk refers to the possibility of the existence of errors that auditors cannot disclose by the independent analytical procedures and have to tests the details additionally. The risk of detection or detection of risk has an impact on the assessment of the inadequacy of the system of internal control, and the assessment of the inadequacy of supervision (Griffiths, 2012). Detection risk is the risk that the auditor will not detect a misstatement that exists in a relevant assertion that could be material either individually or when aggregated with other statements. Detection risk is determined by the effectiveness of the audit procedure and how well the procedure is applied by the auditor. Detection risk assessments would be influenced with the following factors: selecting improper audit process; error execution, misunderstanding the audit results; and the adoption of random inspection (Gupta, 2005; Okezie, 2008).

Inherent and control risks are often evaluated together, because between them there is a high degree of mutual dependence and positive correlation. In contrast,

the risk of detection has an inverse correlation. That means in cases of high inherent and control risk, the auditor will accept lower risk of detection. In other words, if the internal control system is sufficiently reliable, the auditor has no problem to collect appropriate evidence, and it reduces the risk of detection (i.e. detecting errors), which reduces the overall risk of revision at an acceptable level. In order to minimize the overall risk of the audit, the auditor formulates a strategy that should provide sufficient competent evidence. If the total audit risk is higher than usual, or if the auditor assessed it as high, the auditor will react through the following actions: careful selection of experienced members of the audit team which will therefore require that more evidence than needed for regular audit will be collected; careful analysing of the evidence collected by a number of reliable sources which will be used for preparation of a more extensive and detailed audit report (Griffiths, 2012).

From theoretical viewpoint, the audit risk model ($AR = IR \times CR \times DR$) is the conceptual model that underlies the risk-based audit approach. The combination of inherent risk and control risk components ($IR \times CR$) is called "auditee risk" or "occurrence risk". The two risks mean the risk before the audit, which implies that the misstatement has already existed in the financial statement (Low, 2004; Khurana and Raman, 2004). The auditor could not control these two risks; hence they must assess their levels in order to determine the scale of audit test in the regulated audit risk level. Detection risk can be determined in the risk model as $DR = AR / (IR \times CR)$. Rittenburg (2010) stated that audit risk model consists of inherent risk, control risk and detection risk. The audit risk model shows that the amount, nature and timing of audit procedures depends on the level of audit risk an auditor assumes, and the level of client-related risks. Smieliauskas (2007) stated that a risk model should incorporate both misstatements of current audit standards and the forecasting errors of GAAP accounting estimates. He argued that the risk model is:

$$PMM = AudR + \{(1 + AudR) \times AccR\}$$

Where PMM is the probability of material misstatement; AudR is the current audit risk and AccR is the risk of material forecasts errors in the reported amount.

Methodology

The interaction between study variables (Client Acceptance Decision, Audit Risk) is expressed in functional form as follows;

$$CAD = f(AR) \dots \dots \dots (i)$$

However, the components of AR include inherent risk, control risk, and detection risk, hence, the model is broken down into its constituents as follows;

$$CA = \beta_0 + \beta_1 IR + u \dots\dots\dots (i)$$

$$CA = \beta_0 + \beta_2 CR + u$$

$$CA = \beta_0 + \beta_3 DR + u \dots\dots\dots (iii)$$

Where:

CAD = Client Acceptance Decision

IR = Inherent Risk

CR = Control Risk

DR = Detection Risk

β_0 = Intercept

$\beta_1, \beta_2, \dots, \beta_3$ are parameters being estimated

u = Stochastic Error term

A priori expectation: $\beta_1 > 0, \beta_2 > 0, \beta_3 > 0$

The population of the study comprised of accounting firms that are located in Ibadan (South Western Nigeria) and are accredited by the Institute of Chartered Accountants of Nigeria (ICAN); out of which 10 ICAN accredited accounting firms were randomly selected. The research instrument – questionnaire was designed by the researcher. The questions asked were constructed in relation to research objectives, and were used to measure the study variables. The scale used for measurement was ordinal, with indicants ranging from strongly agree (5) to strongly disagree (1). The questionnaire also addressed demographic of the respondents that are related to the study objectives comprising of gender, age, educational background (academic and professional), and work experience. The validation of the study instrument rested on the technical expertise of professionals in field of accounting, who were given draft copies of the questionnaire for necessary corrections before proceeding to the field for questionnaire administration. A total of 100 copies of questionnaire were administered and 92 were returned completed. The specified models were estimated using probability regression analysis (probit). This is due to the ordinal nature of the data gathered for the study. However, demographic data were first presented, tabulated and analysed using frequency and simple percentage. Cronbach's alpha test was also conducted to ascertain the internal consistency (reliability) in the data collected.

Results and Discussion

Table 1: Demographic Data of the Respondents

Details	Characteristics	Frequency	Percentage
Gender	Male	52	57
	Female	40	43
	Total	92	100
Age	22 - 30 Years	32	35
	31-40 Years	28	30
	41-55	20	22
	51years and above	12	13
	Total	92	100
Academic Qualification	B.Sc./HND	50	54
	M.Sc.	29	32
	Ph.D.	13	14
	Total	92	100
Professional Qualification	ACA	32	35
	ACCA	31	34
	ACTI	8	8
	ANAN	18	20
	Others	3	3
	Total	92	100
Years of Professional Qualification	0 – 3 years	36	39
	4 – 7years	26	28
	8 years and above	30	33
	Total	92	100
Work Experience	0 – 5years	36	39
	6 – 10years	24	26
	11 – 15years	18	20
	Over 15years	14	15
	Total	92	100

Source: Research Survey, 2019

Table 1 shows the demographic data of the respondents; about 57% of the respondents are males and 43% females. Majority (35%) of the respondents falls within 22-30 years of age bracket, 30%, and 22% are between the age ranges of 31–40years and 41-55years respectively. While about 13% aged 51years and

above. On educational qualification, 54% of the respondents are B.Sc./HND degree holders, 32% are Master degree holders while 14% (14) of the respondents are having Ph.D. In terms of professional qualification, 35% (35), 34% (31), 8% (8) and 20% (18) of the respondents were ACA, ACCA, ACTI, and CNA respectively while 3% of the respondents are holders of other professional certificates. As for year of professional qualification, 36 (39%) respondents qualified less than three years ago, 28% qualified less than seven years ago and 33% of the respondents have qualified over eight year ago. Finally, the work experience of the respondents as depicted in the table shows that 39% has between 0-5years experience, 26% has between 6 – 10years, 20% between 11-15 years while 15% constituting 8 respondents have over 15 years' experience.

Table 2: Cronbach's Alpha Reliability Test

Cronbach's Alpha	No of Items
0.741	15

Source: Author's Computation, 2019

Table 2 shows the result of Cronbach's Alpha test to determine the reliability and internal consistency of in the data collected. The Cronbach's Alpha value of 0.741 (74.1%) which is greater than the threshold of 50% indicates that there is internal consistency in the data collected and as such, avoidance of spurious result is guaranteed.

Table 3: Ordered Probit Regression Result for Model One

Dependent Variable: CAD

Variable	Coefficient (dy/dx)	Std. Error	Z-Statistics	Prob.
IR	0.0676	0.0268	2.41	0.014
Pseudo R ²	0.2596			
LR statistic	44.83			
Prob(LR statistics)	0.0000			

Source: Author's computation, 2019

The first hypothesis of the study which centered on evaluating the effect of auditor's perception of inherent risk on client acceptance decision was tested using simple probability regression analysis as shown in table 3. The result indicates that inherent risk significantly affects client-acceptance decisions at 5%

significance level. This is corroborated by z-stat of 2.41. The overall significance of the model is brought to light by Prob(statistic) of 0.0000. As a result, the study fails to accept the null hypothesis that auditor's perception of inherent risk does not significantly affect client acceptance decision.

Table 4: Ordered Probit Regression Result for Model Two

Dependent Variable: CAD

Variable	Coefficient (dy/dx)	Std. Error	Z-Statistics	Prob.
CR	0.0109	0.0036	2.13	0.027
Pseudo R ²	0.0937			
LR statistic	17.55			
Prob(LR statistics)	0.0015			

Source: Author's computation, 2019

Table 4 presents the probability regression results for the second hypothesis on the effect of auditor's perception of client's control risk on client acceptance decision. The result showed that control risk is significant factor affecting auditor's decisions on client acceptance at 5% level of significance, and evidenced by z-stat of 2.13. The result also confirms the overall significance of the model by LR statistic of 17.55 and its associated probability of 0.0015. Consequently, the hypothesis that auditor's perception of client's control risk has no statistically significant effect on client acceptance decision is hereby rejected.

Table 5: Ordered Probit Regression Result for Model Three

Dependent Variable: CAD

Variable	Coefficient (dy/dx)	Std. Error	Z-Statistics	Prob.
DR	0.0282	0.0104	2.45	0.006
Pseudo R ²	0.1888			
LR statistic	35.59			
Prob(LR statistics)	0.0000			

Source: Author's computation, 2019

The probability regression result of the third hypothesis on the effect of auditor's perception of detection risk in client-company is presented in table 5. The results showed that auditor's perception of detection risk in client-company significantly

affect client acceptance decision. This is significant at 5% level with a z-stat of 2.45. The study thus fails to accept the null hypothesis that auditors' perception of detection risk in client-company has no significant effect on client acceptance decision. The LR Statistic of 35.59 and its probability value of 0.0000 confirm the overall significance of the model.

The study found that inherent risk significantly affects client-acceptance decisions. This is in line with the work of Fukukawa, Mock and Wright (2006) which revealed that audit risk affects the auditors' client acceptance decision.

Also, the result showed that control risk is a significant factor affecting auditor's decisions on client acceptance. This is in tandem with the results of a study carried out by Demartini and Trucco (2016) which showed that the quality of corporate governance which is control risk is more relevant as a factor in evaluating the audit risk for new clients compared to inherent risk and detection risk.

The results also revealed that auditor's perception of detection risk in client-company significantly affect client acceptance decision. This is in line with the studies of Asare, Hackenbrack and Knechel (1994) and Johnstone (2000). They both found that audit risk affects auditor-auditee negotiation outcome. The results had shown that the partners considered the relationships between client-related risks and used their evaluation of those risks to evaluate the audit firm's risk of loss on the engagement. It appears that avoiding risk, rather than proactively adapting to risk, is descriptive of how audit partners currently make the client-acceptance decision.

However, an alternative explanation for the influence of risk on auditor decision making can be drawn from the literature documenting motivated reasoning. Motivated reasoning research demonstrates that judgment is generally influenced by decision makers' motivation to reach a particular conclusion (Kadous, Kennedy and Peecher, 2003). This type of motive is referred to as directional motivation. Individuals who have directional goals generally search for, interpret, and process information in a manner more likely to yield the desired conclusion. Peecher (2003) provided evidence that motivated reasoning significantly decreases an auditor's objectivity. An auditor or an audit firm with goals would therefore be influenced in their decision processes regardless of what the audit risks evaluated are. This implies that audit risk assessment has no significant influence on client acceptance decision.

Conclusion

The results of the study bring out the considerations of auditors in evaluating audit risk for new and existing clients from Nigerian accounting firms' perception; shedding some light on auditing model. The empirical evidence provided in this study contributes to the literature in a number of ways by adding to the little literature in the Nigerian context based on auditors' perception. Also, the results of the study highlight the significance of the three constituents of audit risk (quality of corporate governance, detection risk and inherent risk) by providing additional evidence on the relevance of corporate governance quality in making client-acceptance decisions. Finally, the study showed that corporate governance quality, inherent risk and detection risk are significant factors determining the acceptance of new client as well as renewal of existing client engagement in Nigeria.

However, the study is not without some limitations, it was an investigation involving small sample of auditors; caution should be used in generalising the outcome of the study. Further studies can include large sample. Also, the variable were measured based on auditors' perceptions. The study did not consider social and behavioural aspect in its measurement. This is suggested for future research.

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