



AUDITORS INDEPENDENCE IN NIGERIA: A CONCEPTUAL PAPER

¹USMAN UMAR, ²MUSA HABIB IBRAHIM, ³ALIYU ABUBAKAR

^{1, 2,3}College of Business and Management Studies, School of Business and Financial Studies, Kaduna, Polytechnic.

Abstract

In Nigeria nowadays, many corporations are skipping up and they also need to be educated on the role of auditing in their respective businesses. Not only that many individuals are getting more informed on investing, especially in the areas of shareholding, stock exchange and the like and therefore they need to be more adequately informed on auditing of accounts and also to apprehend the level of autonomy auditors have as they set out to audit accounts of companies, giving the Nigerians' insolence to administrative system and corruption that has eaten deep into the society. Therefore, the study reviews auditors' independence in Nigeria. The paper adopted structured review of related literature on audit independent in Nigeria. The study concluded that auditors' From perspective of accounting professional body (ICAN), the most pertinent requirement of the professional conduct rule is conduct of professional obligation with neutrality and integrity. The auditor needs to appear to their work in essence of independency in fact and attitude of attention. The study recommends that there should be Regulatory agencies like ANAN and ICAN need to safeguard that tenure of procedure of audit firms is followed strictly as approved by these agencies as this is vital to guarantee independence and increase audit independence.

Keywords: Auditor, Independence, ICAN and Professional

Introductions

In Nigeria, there have been quantities of exclamations on the independence of Auditors as to their autonomy in accomplishment their responsibilities destitute

of excessive interference from convinced quarters. Consequently, the leadership of the Independence Standards Board, and most recently the anticipated independence rules transmitted by the SEC (Securities and Exchange Commission) has wholly attempted to illuminate and reinforce auditor freedom. Also in the unenlightened era financial statements were not necessary and later financial statements were not organized and neither used for resolution making. With the recent development every firm is anticipated to formulate financial statement in order to recognize the financial position of their business so that investors can make decisions (Loveday, 2017).

Auditor's independence has remained a topic of budding discussion and diagnostic study. Most studies have been premeditated to identify hitches related to the lack of independence among auditors in this esteem. Carmichael & Swieringa (1968) recommended that independence epitomize the auditor's professionalism.

Therefore, Independence is further defined as the aptitude of the auditor to challenge client pressure (Elder, Lowensohn, & Reck, 2015) or the ability of the auditor to act unsympathetically with self-esteem (Bartlett, 1993). This has, therefore, traced the need for growing efforts by both researchers and policymakers to consider the critical role that the auditor independence plays in achieving audit superiority. Above all evident in the topical universal financial crisis, which resulted in an intense debate on the independence of auditors, resulting in deliberation of potential trade-offs between the independence of the auditors and audit excellence (Olatunji & Weihang, 2017). Hence, how does the independence of auditors affect the efficiency of an audit? Or does the independence of the auditors have an indirect connection with the efficiency of the audit? Efforts of Past research studies, on the impact of auditors' independence on audit reputation, yield contradictory and unsatisfying results (Saputra, tepalagul & Lin, 2015). Consequently, this study measures auditors' independence in Nigeria by picking the most relevant substitutions that will mitigate the contradiction and poor affiliation between the variables as indicated by various breeds of literature. Similarly, it is commonly accepted that a more vigorous auditing standard for auditors improves a healthy level of audit that results in consistent financial reporting. The primary objective is to create a model that effectively mitigates poor audit independence and enhances the excellence audit report (Tapang, Bessong, & Ujah, Tepalagul & Lin, 2015).

This research will thus contribute both to current issues and debates as well as to the body of literature on the effectiveness and independence of auditors. Furthermore, in Nigeria nowadays, many corporations are skipping up and they also need to be educated on the role of auditing in their respective businesses. Not only that many individuals are getting more informed on investing, especially in the areas of shareholding, stock exchange and the like and therefore they need to be more adequately informed on auditing of accounts. There is also need to apprehend the level of autonomy auditors have as they set out to audit accounts of companies, giving the Nigerians' insolence to administrative system and corruption that has eaten deep into the society (Enofe , 2013; Babatoolu , 2016). There is also belief that it is wrong for an auditor to "give the impression" not to be independent and that the auditor's role is to do his primary responsibility to protect public interests and the inevitability to use conclusion in fulfilling this responsibility (Ilaboya and Ohiokha, 2014). Recent gossips of questionable accounting practices adopted by some corporations in Nigeria have transported the dispute of auditor's independence to the vanguard, and putting the auditing occupation trustworthiness in hesitation (Otusanya, 2010). For the above motive and others not declared, this study was assumed to examine auditors' independence in Nigerian with objectives to determining the audit independence on the recognize in Nigeria.

LITERATURE REVIEW

The "Institute of Chartered Accountants of Nigeria" (ICAN) in evaluating benefits of auditors independence upheld that it is crucial to sustain strict adherence to rules which concerns nine basic principles for independent auditing which are supposed to influence professionalism of auditors positively and boost trust and respect of people and other users of audited monetary report. In addition, observance of tenet of these basic principles would engender moderation of basis for auditor's conduct and help in preventing violation of terms of regulations from professional bodies, and the law.

Ndubuisi & Ezechukwu (20017) recommend that auditors' independence reflects an objective, rational approach when presenting a financial statement. While other researchers say that independence is the unique characteristic of the auditors (Albeksh, 2017). So also (Ahmad, 2012) look at Auditors Independence as integrity of auditors is the cornerstone of the auditing profession. The independence of the auditor according to the Independent Standard Board

(2000) is the freedom from certain limitations that affects an auditor's ability to make fair audit decisions or compromise quality. According to Naslmosavi, Sofian, & Saat, (2013) prompt opinions of an auditor increase the trust of shareholders' in the financial statements. These further improve sureness and efficiency of operation in capital markets. Generally, auditors' independence has been recognized as an important mechanism in mitigating information lopsidedness. This is because it ensures that the auditor presents objective views, which are reliable and truthful about the financial reports prepared by managers. These include: auditor tenure, non-audit services, client importance and auditors' client's relationship. Furthermore, the independence of the auditor, in fact as well as in presence, permits independence. The objectivity and demonstration of professional suspicion without undue influence is suggesting absolute independent in both fact and appearance and interpreted by many as integrity and good practice (Tepalagul and Lin 2015; Ali and Nesrine 2015). Hence, it can be concluded that audit independence and quality reporting is crucial as its influence investment decision (Albaqali & Kukreja, 2017).

Zayol, et al. (2017) defines auditor's independence as an unbiased mental attitude in making decisions throughout the audit and financial reporting process. What this implies is that lack of independence of an auditor proportionately increases the possibility of being perceived as bias; as the auditor has inclinations of not reporting a discovered breach. Meanwhile, there are environmental threats to auditor's independence. Zayol, (2017) observes that the fees received by the auditor for audit and non-audit services pose as threats to auditor independence. Apart from this, the tenure of the auditor – client relationship is another potential threats to auditor' independence since a prolonged relationship may grow from formal to informal where auditor will become loyal to the executive directors and the directors will feel responsible for the auditor's wellbeing even during the non-service times. Enofe, Nbgame, Okunega and Ediae (2013) support this view that the independence of an auditor becomes vulnerable by the tenure or length of time the auditor is retained in a particular company. The reason as given by Enofe, et al. (2013) is that the familiarity developed through long tenure and the wholesome of income the auditor gathers from a particular company has high tendencies to erode the independence of the auditor. Based on these threats, Okolie (2014) presumes that once the independence of an auditor is impaired, it usually result in poor

audit quality and brings about greater earnings management and lower earnings quality.

Factors that Limits Auditor's Independence

Auditor's independence is not just a notion in hollowness; there are factors that stimulate auditor independence. The nonappearance of these factors will not make an auditor to be independent. These factors as delineated by Adeyemi & Okpala (2011) comprise:

1. Audit Tenure with a Single Client

The numbers of times had been reappointing by auditor in a given firm affect negatively on auditor independence. Thus, this would in turn minimize manager's tendencies and possibility to involve in fraud, red flag and irregularities. Auditors engaged for many years tend to create closer affiliation with his client and also increase familiarity between client and auditor. This familiarity might foster undue sympathy by auditor to client thereby affect their duty in issuing qualified report whenever need arises. Therefore, increase fraud motivations for clients. The extent of impact long tenure has on independency of auditors would depend on their ability and level of independence itself (Effiok, Tapang, & Eton, 2012; 2013)

2. AUDIT COMMITTEE.

According to Abu-Bakar and Ahmad (2009) audit committee helps auditors to retain their independent from management because audit committee people are directors not involved or entangled with monetary report preparation, there is reason for these members to conduct their duties efficiently. This reason supposed possibility of audit committee to have positive association with independency of auditors, which supposed that existence of audit committee would enhance auditor independency. Several research reviewed by Abu-Bakar and Ahmad (2009) align with this perception. Though, contrary to this, they uncovered that findings from Gul (1989) did not agree with their perception when he mentioned that audit committees did not appreciably impact on auditor independency.

3. AUDIT FEES

The specialized code of conduct for Chartered Accountants in Nigeria (ICAN) demand that audit fee from single client should be

over 25% of whole audit income. The conclusion from research reviewed by Abu-Bakar and Ahmad (2009) was that firms having large portion of their entire audit cost is derived from one client are usually worried of losing such client, hence, runs risk of getting their independence put in danger. Large percentage of audit fee from one client would likely substitute weakening of independency of auditor. These codes maintain that such would constitute or amount to self-interest threat. Abu-Bakar and Ahmad (2009) mentioned that 15% is acceptable level and such principle is universally accepted level used by ICAEW and Australia generally at which auditors need to consider their independent locus.

4. Competition in the Audit Services Market

When there is too much competition among the auditor in market it will lead to compromised and threat by client to mitigate the audit freedom and also cost the auditor to go on bargaining with the client, with these it will affect negatively on independency of auditor and therefore affect audit sovereignty.

It should be noted that this is not a requirement of any regulation and guideline. However, auditors go into relationship with the client because of the perceived benefits derivable from the audit given to him by the client and also work according to the interest of the client not shareholders.

5. Size of the Audit Firm

Size of audit firm is in the midst of factors that usually inspiration on auditor's independence extensively. A number Assumption pinched from numerous studies reviewed by many scholar was that giant audit firms are unlikely to settle to pressure from management compare to smaller ones, perhaps due to enormous number of client base and income volume accrue to big firms and fact that they would never renunciation to destroying their already built past goodwill while small firms are usually concerned about losing their few clients which could further wane their meager income. In attempt to retain these clients such firm tend to give personalized services to develop closer affiliation with client. This would in turn increase possibility of impaired independence of such firms.

Qualified bodies and Audit Independence

From perspective of accounting professional body Institute of Chartered Accountant in Nigeria (ICAN), the most pertinent requirement of the professional conduct rule is conduct of professional obligation with neutrality and integrity. The auditor needs to act to their work in essence of independency in fact and attitude of attention. They finally identify some circumstances which could threaten compliance to these basic principles. The concept provided by this institute is structure on which chartered accountants are supposed to act and operate when appraising and addressing issues to obedience to these basic principles as an alternative of just conforming set of stated rules, which could be random. Based on provision from this institute, the need to obey these basic principles is confronted with wider sets of circumstances which are grouped as thus:

- (a) Danger of Self-interest threats, this threat mechanism from cases where monetary and other commitment exist between auditor and their client.
- (b) Danger of Self-review which could happen in cases where previous judgment required to be reevaluated by Chartered Accountant need for such judgment.
- (C) Danger of advocacy threats, these occur when Chartered Accountant recommends any position and judgment in ways that might hinder objectivity.
- (d) Danger of familiarity which occurs due to close association between auditor and client making such auditor compassionate to said client which is detrimental to their professional obligations.

Dispute on Auditor Tenure and Audit Independence

It is generally whispered that auditor tenure has subsequent effects on the independence of the auditor. Whether such effect is positive or negative is another dispute. Many studies has been prepared by many researchers such as that of Adeyemi and Okpala (2011) ,Enofe (2013), Nwayanwun (2017) Zayol, (2017), which have vaguely criticized audit tenure as impairment to audit independence. Meanwhile, it is held that there are inconsistent opinions on how auditor tenure affects auditor independence. There is also a believed that the ability of an auditor increases directly as the tenure of the auditor gets longer. This defense is centered on the postulation that an auditor will have established dynamic information of the client/over the time and hence the auditor can base audit decisions on such information. The other thought is that the independence

of the auditor is hindered as audit tenure gets longer. This is based on the postulation that long audit tenure will encourage red flag, undue neatness, fraud and familiarity between the client/ directors and the auditor (Knechel, 2007).

Methodology

This paper adopted structured review of related literature on audit independent in Nigeria. The concern of this paper is to evaluate the routine of audit independent in Nigeria. Furthermore, secondary data were collected from print materials and related journals on the subject matter were specifically search in specific journals. Such as journal of Business and Social Sciences(JBSS), Journal of Economic and Business(JEB), Journal of Business and Management(JBM) and Journal of Economic and Finance(JEF).

Conclusion

From the above presented in the preceding of this study, the following conclusions were made: It is clear that auditors' independence is fundamental to the trustworthiness of having good decision making. Therefore, once the independence of an auditor is impaired, it usually result in poor audit quality and brings about greater earnings management and lower earnings quality. Auditors fee are prejudiced by various economic determinants including the size and complexity of the audit work. For example, Kinney and Libby (2002) argue that unexpected fees are a better measure of the auditor's economic bond because they reflect the excess profit derived from an audit client. Thus, Audit tenure had negative and inappreciable impact on audit independent and quality in selected banks in Nigeria; from perspective of accounting professional body Institute of Chartered Accountants of Nigeria (ICAN), the most pertinent requirement of the professional conduct rule is conduct of professional obligation with neutrality and integrity. The auditor needs to appear to their work in essence of independency in fact and attitude of attention.

Recommendation

The following recommendations are mediated appropriate at this moment: For auditors to remain rigorously independent they should not be allowed to provide audit clients with any other advisory services and there should be upheaval of auditors to develop the auditors' independence and also audit committee should be set up by every limited liability company to appraise the audit work done.

The aspect of auditors providing consulting services to the client company should be properly examined. lastly, Regulatory agencies like Associate of National Account of Nigeria(ANAN) and Institute of Chartered Accountants of Nigeria (ICAN) need to safeguard that tenure of procedure of audit firms is followed strictly as approved by these agencies as this is vital to guarantee independence and increase audit independence.

It is anticipated that when all these are done it help the auditor to be independent and also be able to present a true and fair view of the financial statements.

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