

The Nexus between the Concept of Independence of Auditors and Quality Assurance Services in Audit Engagements in Nigeria

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Abstract

Trusted and reliable financial statements are imperative so as to make sustainable decisions in corporate organisations. This can only be achieved by the Auditors Independence. Since this will engender fairness, objectivity and integrity that culminate into quality assurance in the reporting activities of the auditors. Considering the various groups that repose their confidence on the report of Auditors and the legal and professional consequence of unreliable Auditors report, sensitivity must be displayed to ensure quality assurance services in audit report. 500 questionnaires were distributed and analysed through the use of chi-square statistical technique at 5% level of significance to probe the opinion of professionals, and other users of financial information. The findings show that confidence of the users of financial report are been eroded on daily basis because of the loss suffered as a consequence of reliance on the Audit report. This paper hereby recommend that professional accountants in the field must do everything to ensure independence in their audit engagement.

Keywords: Quality assurance, Audit engagement, Independence, Financial Reports, Audit Reports.

1. Introduction

There is no time than now when quality assurance function is desirable from the independent auditors. This is because those who are interested in the information contained in the report of corporate organizations are increasing globally on daily basis.

Okafor (2012) Opines that the reduction of information risk in financial sector has turned in great measure to be a big challenge in particular, to Accountants and Auditors, Okafor (Op.cit) further says that the issue of Auditor's independence as an essential platform for quality audit is not debatable. Auditor's Independence is commonly referred to as the cornerstone of the auditing profession since it is the foundation of the public's trust in the accounting profession.

The profession must throw their vigour behind complete independence in the process of diagnosing the activities of corporate organisations during their engagement. Those oversight functions that distort their independence such as accepting to be tax consultant, helping in the preparation of financial accounts to conform with the standard, the auditor having any loan to or from enterprise, Auditors having or had committed to acquire any direct or material indirect financial interest in the enterprise, Auditor having any joint closely held business investment with the corporation or with any officer, director, or principal stockholders thereof that was material in relation to the member's net worth or to the net worth of the member's firm must be discarded to ensure independence. The concept of independence enhances objectivity, fairness, and integrity in fact finding and decision making process which will in turn facilitate quality assurance services in the auditor's reports. Against this backdrop, the paper is poised to elucidate the inter face between the concept of independence and quality assurance services in Audit Engagements.

2. Literature Review

Kieger and Scheiner (1994) define Audit as the systematic process by which a competent, independent person objectively obtains and evaluates evidence regarding assertions about an entity or event, for the purpose of forming an opinion about and reporting the degree to which assertion conforms to an identified set of standards.

Fakiyesi, (1997) Adeniyi (2010) refer to audit as the independent examination of, and expression of opinion on, the financial statements of an enterprise by an appointed auditor in pursuance of that appointment and in compliance with any relevant statutory obligation. Adeniyi (op.cit) says Assurance services include many areas of information, including non financial information. Assurance services are independent professional services that improve the quality of information, or its context, for decision makers.

ICAN (2006) says An Audit firm should be dedicated to the pursuit of the highest quality in all its operations. Quality Control should not be in respect of each particular engagement only, but-must also exist at the levels of the entire firm. It further asserts that the need for assurance services has arisen because of the fact that owners and Managers of businesses are often different people such that owners (shareholders – would require more confidence in the report of Managers – directors). The need has continued to be pertinent as a result of the increase in the volume of information made available and required as a result of the following developments:

(a) Growth in International Communication methods especially the proliferation of reporting on the

internet and the use of world wide web.

- (b) Additional areas for which information is required, that is, corporate social responsibility, environment reporting, corporate governance, etc. ICAN (op.cit) refers to the concept of independence as the State of not being controlled by other people or things. A professional needs to be objective in the course of performing his/her duties. Such a professional after behaving objectively will need to be independent of the owners of the business for which he/she is working. Objectivity and independence often go together auditors should not only be objective but also act independently of the entity they are working for.

Okafor (2012) says Auditor's Independence refers to the independence of the auditor from parties, other than shareholders, that have an interest in the financial statements of an entity. Independence means when an auditor is unbiased in carrying out the audit work. It is essentially an attitude of mind characterised by integrity and an objective approach to the audit process. The concept requires the auditor to carry out his work freely and in an objective manner.

The purpose of an audit is to enhance the credibility of financial statement by providing reasonable assurance from an independent source that they present a true and fair view to the shareholders and other users of the financial information. Okafor continues by asserting that auditors independence has long been couched in terms of independence 'in fact' and independence in 'appearance'. An Auditor must be independent in fact, which means that he or she is able to be objective. Because auditor independence in fact is a mental state, investors and other users of financial statements cannot accurately assess actual objectivity, they can only evaluate an auditor's appearance of objectivity. This, even when an auditor acts independently "in fact" and issues an unbiased audit opinion, investor confidence is eroded if investors and other users of the financial statement/information do not perceive that auditor was independence in appearance. Since it is impossible to observe and measure a person's mental attitude and personal integrity, the auditor must also be independent in appearance as well, that is Auditor must avoid relationships that appear to impair their objectivity. Such relationships include having financial interest in client business or business relationship with a client other than to render public service. Independence will engender quality report by the auditors. Quality report according to Okafor is necessary in order to identify leakages, wastages and other rigidities holding our nations development. Leakages and rigidities such as corruptions mistrust of public and professional trust, distress banks and companies and various bane of the society in various shapes seeking for immediate attention.

In the Publication of Accounting Standard board (ASB) of U.K; Roger (2012) of the U.K. Accounting Standard Board is saying that Clutter in Financial Reports is a problem obscuring relevant information and making it harder for users to find salient point about the performance of the businesses and its prospects for long-term success. Therefore, a quality report for financial users should be clear, straightforward and to the relevant honest point. The emphasis is that all those involved in regulation, reviewing, preparing and using annual reports have to change their behaviours if we as professionals are to remove Clutter and improve on Corporate Reporting.

Osioma (2012) asserts that accounting profession was terribly rocked by a series of professional misadventures that tore at the heart of the discipline over the period 2000 to 2008. It all started with the Enron Scandal of 2001/2002 which effectively marked the end of an epoch in the development of regulatory framework for the accountancy profession. The International community had scarcely lived down the effect of that experience, before other factors sent the shivers down the spine of financial analysis and investors. The litany of woes include Worldcom, Global crossing, Xerox, Deutsche Telecom, Qwest, Waste Management, Vivend, Centuca, Royal Dutch/Shell and Tyco-all through the U.S, Europe, Asia and the Carribean. Closer home, the examples include African Petroleum and Cadbury among others, and a host of banks which went burst over corporate governance abuses and sharp accounting practices.

Osioma (op.cit) concludes that these and other similar cases, laid the background for the emergence of a new standard regime for the profession. Today the emerging new landscape includes;

- Call for mandatory rotation of auditors in corporate firms
- The need for greater transparency in financial and accounting statements;
- Increased focus on corporate bribery, fraud and defalcation;
- Push for tightening of scope of services provided by accountants and auditors
- Increased oversight and supervisory function.
- Enhancement in Corporate Governance practices
- New Risk Management and compensation practices.
- Expansion of Business Reporting.
- Questioning the role of the Audit function.
- Increase in mandatory capital.
- Emphasis on systemic safety and soundness
- Call for convergence of standard

- Financial Regulatory Reform.

Sarbanes–Oxley Act (2002) mandates that audit committees be directly responsible for the oversight of the engagement of the company’s independent auditor, and the Securities and Exchange Commission, (SEC). SEC rules are designed to ensure that auditors are independent of their audit client. There are some specific prohibited Non-audit Services (NAS) which include the following: Bookkeeping, financial information systems design and implementation, Appraisal or valuation service fairness opinions or contribution – in-kind reports, Actuarial services, internal audit outsourcing services, management functions or human resources, Broker-dealer, investment adviser, or investment banking services, legal services and expert services unrelated to the audit.

Ismaila (2012) posits that notably from the beginning of the 1980s to the present day, there have been multiple accounting scandals which have been widely reported and resulted in fraud charges, bankruptcy protection request (United States) and closure of companies and accounting firms. Clearly the scandals were the result of creative accounting, misleading financial analysis, as well as corruption and corrupt practices within the industry. Furthermore he says, out there in the developed world, various companies had issues with fraudulent (creative) accounting practices, some of which include: the Nugan Hand Bank, PharMor, Worldcom, and AIG. of all these, the most widely reported violation of accounting ethics involved Enron, a multinational company, that for several years had not shown a true and fair view of their financial statements. Their auditor, Arthur Anderson considered one of the “big five” accounting firms in the United States, endorsed the accounts as valid despite the inaccuracies in the financial statements. The outcome of this misdemeanour was that Enron dissolved, Arthur Anderson went out of business and Enron’s shareholders lost US \$25 billion as a result of the company’s bankruptcy. The closure of the firm resulted in the loss of 85,000 employees who were involved in the scandals. All these were results of compromise of independence in the course of professional discharge of duties.

In the recent years auditors have been accused of being involved in what has been described as harmful and anti-social behaviour purely for the sake of high fees (Christensen 2006; Bakre 2007). Michael and Ben (2012) say in a write up captioned “United State of America sues big firms over China Audit” they say that security regulators took aim at the Chinese affiliates of big global accounting firms after a wave of accounting debacles at publicly traded Chinese firms that led to billions of dollars of shareholders losses. (Evbodaghe 2009, Mitchel and Sikka 2002) opine that it seems that auditors face credibility issues thus for instance there is widespread public perception that auditors lack independence from company, executive 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 and Gendron 2010). A study by Bakre (2007) has documented various cases in which accountants and external auditors in collaboration with management and directors of companies falsify and deliberately overstate accounts. Investigation into financial report of Afribank (Mainstreet PLC) implicated Akintola Williams and Deloitte in facilitating an overstatements of the banks accounts by the management. Other Nigerian cases have also been documented in which a number of professional accountants firms were involved and indicted for anti-social practices in conflict with their professional claims in an attempt to be acting in the public interest and it was suggested that the matter needed further investigation (Bakre 2007). Mohammad (2008) concludes that Audit is a quality assurance function. Quality assurance has become more necessary with the expansion of stakeholders and the need to take into consideration their individual need. 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). Adeyemi (2008) opines that the professional Accountants (Auditors) must necessarily be dynamic and creative to enable the profession achieves its objective Dabor and Adeyemi, (2009) posit that the credibility of financial statements remain the primary means of informing the shareholders and other stakeholders about the financial performance, progress and position of a firm.

Considering the interest of the stakeholders which includes the foreign entities, Government, shareholders, (including potential investors), employees, management’s interest in all organisations (public and private), this paper is set to highlight critically the nexus between the concept of independence in audit engagement and the quality assurance services in audit report.

3. Methods and Materials

The research design used for this study is descriptive in nature. The population of the study comprises of the members of staff of some of the auditing firm in Lagos, Ibadan, Abuja, Warri in Nigeria, Shareholders in Lagos, Oyo, Ekiti, Osun in South-Western Nigeria, Public and private corporation employees in Lagos State, Civil Servants and Accounting and finance Students at graduate and Post graduate levels in the Universities and Polytechnics. Out of the 550 questionnaire distributed, 100 were returned by the members of staff of Auditing firms, 200 from the shareholders and other public interest, 50 from private and public corporation employees and 150 from the Accounting and Finance Students. The total of the -respondents who returned their questionnaire were 500. The chi-square method of statistical analysis was adopted for the research, and all the formulated

hypotheses were tested at 5% level of significance.

3.1 Research Hypotheses

The following research hypotheses, considered adequate for the study are hereby stated in their null forms.

- i. Auditors' sensitivity about the interest of the various groups (stakeholders) while performing his/her duties and writing his/her report has no effect on the quality assurance services in the final report.
- ii. Attitude of Complete Independence both "in fact" (objectivity, integrity, probity and fairness) and "appearance" (avoidance of undue relationship) has no significant impact on the quality assurance services in audit report.
- iii. Periodic rotation of statutory auditors (after two years of engagement) are not significant to quality assurance services in audit report.
- iv. Total prohibition by the Act of all other oversight functions by the statutory auditors are not significant to quality assurance of audit report.
- v. Tracing the track records of integrity, objectivity, fairness probity, independence and appraisal of the audit firm by a regulatory government Agency before and after engagement are not significant to quality assurance of audit report.

4. Result and Discussion

Research Hypothesis i

Auditors Sensitivity to the interest of the various groups (stakeholders) while performing his/her duties including writing his/her report has no effect on the quality assurance services of the published report.

Chi-square (X^2) results

X^2 calculated	X^2 Table value	Degree of freedom	Level of Significance
82.1	9.49	4	5%

Source: Author's Computations

The result in the table above shows that X^2 calculated of 82.1 is greater than X^2 critical table value of 9.49 which means the alternative hypothesis is accepted meaning that auditors sensitivity to the interest of the various stakeholders while performing his duties has effect on the quality assurance of his report.

Hypothesis ii

Attitude of complete independent both in fact (objectivity, integrity, probity and fairness) and appearance (avoidance of undue relationship) are not significant to the quality assurance of audit report.

Chi-square (X^2) result

X^2 calculated	X^2 Table value	Degree of freedom	Level of Significance
32.46	9.49	4	5%

Source: Author's Computations

Since X^2 calculated value is 32.46 which is greater than X^2 table value of 9.49 the null hypothesis is rejected meaning that attitude of complete independent both "in fact" and "appearance" are significant to the quality assurance of audit report.

Hypothesis iii

Periodic rotation of statutory auditors (after two years of engagement) are not significant to quality assurance of audit report.

Chi-square (X^2) result

X^2 calculated	X^2 Table value	Degree of freedom	Level of Significance
226.78	9.49	4	5%

Source: Author's Computation

X^2 calculated value is 226.78 which is greater than X^2 table value of 9.49. It is therefore established that the null hypothesis is rejected while the alternative research hypothesis which states that periodic rotation of statutory auditors (after two years of engagement) are significant to the quality assurance of audit report.

Hypothesis iv

Total prohibition by the Act of all other oversight functions by the statutory auditors are not significant to quality assurance of audit report.

Chi-square (X^2) result

X^2 calculated	X^2 Table value	Degree of freedom	Level of Significance
29.14	9.49	4	5%

Source: Author's Computation

The fact that X^2 calculated 29.14 is greater than X^2 critical value of 9.49 means the alternative hypothesis is accepted which asserts that total prohibition by the Act of all other oversight function by the statutory auditors are significant to the quality assurance of audit report.

Hypothesis v

Tracing the tract records of integrity objectivity, fairness, probity, independence and, appraisal of audit firm by a regulatory Government Agency before and after engagement are not significant to the quality assurance of audit report.

Chi-square (X^2) result

X^2 calculated	X^2 Table value	Degree of freedom	Level of Significance
15.72	9.49	4	5%

Source: Author's Computation

X^2 calculated value is 15.72 which is greater than X^2 table value of 9.49, that explains that alternative hypothesis is accepted that tract records and appraised of audit firm by Government Agency before and after engagement are significant to the quality assurance of audit report.

5. Discussion of Findings

A causal look at the nexus between the concept of independence and quality assurance services in Audit Report revealed the fact that Auditors should be sensitive to the interest of the various groups that can rely on the report produced by them to make informed decision. Apart from the shareholders, other groups include, the Government, foreign interest, employee, potential investors, potential employee etc. For this purpose, in the course of their duties the groups expects absolute objectivity. The findings equally indicate that auditors must be independent both in fact (objectivity, integrity, probity, and fairness) and appearance (avoidance of undue relationship) are necessary if quality assurance report will be produced (Okafor 2012).

The study equally revealed that periodic rotation of statutory auditors according to Osisioma (2012) will enhance the quality assurance of their report. Also the indications from the study show that statutory auditors should be prohibited from oversight functions in the firm where they are engaged for audit exercise such as tax consultants, bookkeeping etc. The revelation from the findings show that the history of the audit firm should be traced by a regulatory Agency of the Government as to objectivity, fairness, probity and independence and even after the engagement proper appraisal must be conducted on their activity.

6. Summary, Conclusion and Recommendations

6.1 Summary

This study, the Nexus between the concept of independence of Auditors and quality assurance services in Audit engagement shows that the quality of the report produced by the auditors are hinged on the absolute independent of the Auditors, suffice it to say that independence will enhance probity, integrity, objectivity and fairness. The reliability of the reports of the auditors are germane to economic and social decisions of individual, groups, corporate organisation, the nation and the global village at large. Lack of independent both "in fact" and "in appearance" according to Okafor (2012) and overstay in an organisation without periodic rotation as asserted by Osisioma (2012) can impair the independence status of auditors in practice. Also Auditing firm engaging in audit work should step aside from oversight functions that can impede their independence status. Quality assurance reports from Statutory Auditors are functions of absolute independent from the Entity being audited.

6.2 Conclusion

Considering the findings of this study, it is concluded that Quality assurance services in audit report is indispensable for informed decisions that will facilitate and enhance the socio-economic development of the businesses in the nation. When independence of auditors is distorted according to the study, it may adversely affect the Quality assurance in their report since, objectivity, probity fairness and integrity of the reporters (Auditors) is already distracted and infringed upon. The study conclude that since various groups of the society are interested in the report produced by a statutory auditors, the personal sensitivity of the auditors, independence in facts and appearance should be holistically adhered to in order to bring back the good reputation of accounting profession which include, reliability, accuracy, integrity, prudence, objectivity, soundness and independence back on board globally.

6.3 Recommendation

The indication from this study points to the fact that lack of independence and personal ambitions (oversight functions because of additional fees) by the accountants had resulted into producing results that had not shown the true and fair view of the positions of the organisations reported upon by the statutory auditors which had resulted into bankruptcy of business entities, loss of jobs by employees; economic malnutrition in some quarters. The report from the auditors suppose to be quality and reliable documents that will show unequivocally the true and fair statement of the position of the organisation (after their functions and certification). In view of the aforementioned and based on the qualitative and quantitative result of this study, the following recommendations are made:

- (i) Government should amend the companies and allied matter Acts to prohibit all other engagements that affect adversely the independence of Auditor such as tax, bookkeeping etc. by the Audit firm on audit

- engagement.
- (ii) Professional bodies should align themselves together to ensure that members from the same professional institute are not allowed to perform dual functions in the same organisation. e.g in Nigeria if a member of Association of National Accountant of Nigeria (ANAN) accepts audit engagement in a firm, other engagement such as Tax consultant, Bookkeeping etc. should be given to a firm belonging to a member of institute of chartered Accountants of Nigeria (ICAN)
 - (iii) Professional Associations at their annual session of Mandatory Continuing Professional Development Programme should educate and emphasise the importance of independence both “in fact” and “in appearance” to their members.
 - (iv) The Act should ensure periodic rotation not longer than two accounting years in a Corporate organisation.

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