THE IMPACT OF AUDIT INDEPENDENCE ON FINANCIAL REPORTING: EVIDENCE FROM NIGERIA

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ABSTRACT

This research was carried out in order to examine the impact of audit independence on financial reporting in Nigeria. The study aimed at examining, investigating and ascertaining the interaction between audit quality and corporate financial reporting in Nigeria. Hence, the study is a movement towards improving the quality of audit practice in Nigeria. In conducting this research both primary and secondary data were used. The study captured the opinions of respondents including auditors, shareholders, brokers, analysts, regulators, management, academics and others users of financial information. The primary data were got from three hundred and fifty returned and usable copies of questionnaire, while the secondary data were generated from the financial statements of forty annual reports of companies quoted on the Nigerian Stock Exchange. The data gathered were used to test the research hypotheses and answer some of the research questions. The study found a significant and positive relationship between audit quality and the quality of financial reporting.

Keywords: audit independence; financial reporting quality; multiple directorship; audit committee.

1. INTRODUCTION

1.1 Background to the study

In recent times, auditors have been put under pressure to ensure that their reports constitute assurance to investors that their funds are put into good use and properly accounted for. In Nigeria, every incorporated company is required to appoint an external auditor, who is required to render an independent opinion on the financial statements; whether or not they show a true and fair view. The *Companies and Allied Matters Act (1990)* states that every auditor of a company shall have a right of access, at all times, to the books, accounts and vouchers of the company and to such information and explanations as may be necessary in the course of an audit. The auditor shall make a report to the members of the company on the accounts examined by them. The auditor in performing his duties is expected to exercise all care, diligence and skills as is reasonably necessary in each particular circumstance.

Audit report is the medium through which the auditor expresses his opinion on the financial statement examined by him. Due to familiarity, threat of replacement of an auditor, provision of book-keeping services by the auditor and many other factors, the auditor may want to issue an unqualified audit report even when the situation on ground proved otherwise. This situation raises doubt about the independence of an auditor. Independence is the cornerstone of accountability. The challenge is that corporate management hires, fires, and pays both their internal and external auditors. Auditors, therefore, develop good relationships with management to keep the job of the client. They may not, therefore, be independent of the corporate management. In the United States of America, the *Sarbanes-Oxley Act (2002)* prevents auditors from providing non-audit services to their clients. Nevertheless, auditors will understandably, want to keep their clients for as long as possible (George, 2003).

In Nigeria, there have been a number of audit failures, some leading to the restatement of figures in the financial statements. For example, Lever Brothers, African Petroleum and Cadbury, just to mention a few important ones. Although, it has not been proved by any detailed investigation that these audit failures were due to impairment of auditor's independence it could reasonably be suspected to be a contributing factor (Adelaja, 2009). Many researchers in the developed nations have investigated the extent of audit independence. For example, Harrast and Mason-Olsen (2007); Abu Baker and Ahmad (2009); Abdullah (2008); Ismail *et al.* (2008); Sikka (2009); Geiger and Raghunandan (2002) and Zhang *et al.* (2007). All these studies were conceptualized and executed from the perspectives of developed nations. However, in Nigeria, there is a paucity of empirical studies in the same direction. The foregoing perspectives, therefore, make it desirable to investigate the impact of audit independence on corporate financial reporting in Nigeria.

1.2 Problem Analysis

Concerns have been expressed about the conflict of interest between the statutory role of the auditor and the other services it may undertake for a client (UK House of Common Treasury Committee, 2008). Also, a number of worrisome audit failures has been recorded across the world: Enron, in the US, Northern Rock in the United Kingdom, Metagelshaft in Germany, Parmalat in Italy; Lever Brothers and Cadbury in Nigeria. Audit firm tenure has also been linked with fraudulent financial reporting. If empirical studies are not carried out with respect to specific environmental factors and necessary policies are not implemented to address shortcomings, the problem of auditor independence may be exacerbated with likely grave consequences for the nascent Nigerian Capital Market.

1.3 Aim and Objectives of the Study

The aim of this study is to enhance audit quality and the reliability of corporate financial reporting in Nigeria. Specifically, the study intends to:

(i) examine the interaction between audit quality in relation to the quality of corporate financial reporting in Nigeria;
(ii) investigate the relationship between audit independence and financial reporting quality; and
(iii) ascertain the adequacy of professional and regulatory stipulations on audit independence in Nigeria.

1.4 Research Questions

(i) What is the relationship between external audit quality and quality of financial reporting in Nigeria?
(ii) To what extent has auditors' engagement in management advisory services (non-audit services) influence the quality of financial reporting in Nigeria?
(iii) Are the professional and regulatory stipulations on audit independence in Nigeria adequate?

1.5 Hypotheses

The hypotheses proposed in this study are stated in the null as follows:

(i) H_1: There is no significant relationship between multiple directorships of audit committee members and the quality of corporate financial reporting in Nigeria.
(ii) H_2: Audit firm rotation does not have a significant relationship with audit independence in Nigeria.
(iii) Non-audit services does not have a significant effect on the quality of financial reporting in Nigeria.
(iv) There is no significant relationship between professional and regulatory pronouncements and audit independence in Nigeria.

1.6 Significance of Study

The study has the potential of encouraging auditors and users of financial information to see the need for audit independence. It will enable clients appreciate the enormity of the auditor's job and factors that can affect his job. The outcome of the study will assist audit firms and management or directors of companies to further appreciate the need to comply with the relevant Statement of Accounting Standard (SAS) and the International Financial Reporting Standards (IFRS). This study hopes to provide relevant literature on audit independence. This is cogent as the issue of audit independence is ongoing and becoming more controversial. Consequently, current studies like this are required to provide updated and environmental-specific information. This study is also expected to serve as input to regulators and other stakeholders of corporate financial reporting to establish policies relating to corporate financial reporting, particularly in the Nigerian context, since empirical evidence on this issue is limited in the country. Empirical evidence from domestic perspective can also assist policy makers and other relevant international accounting agencies in their attempt towards the international harmonization of audit standards.

1.7 Scope and Limitation of the Study

The scope of this study covers the impact of audit independence on financial reporting in Nigeria. However, due to logistics, this study has been limited to a companies located in Lagos, Nigeria. The researcher felt that the findings of the study will be applicable to other Nigerian companies, audit firms and users of financial information which operate in the same social, economic, political and legal environment. Lagos is the corporate capital of Nigeria and it represents all the major geographical and social-political divisions of the country. A well designed study executed in Lagos appears to be representative of the corporate population of the country.

2. LITERATURE REVIEW

2.1 Determinants of Auditor Independence

Literature has identified a number of factors which influence audit independence.. These factors include: size of audit firm; level of competition in the audit services market; tenure of audit firms serving the needs of a given client; size of audit fees received by audit firms; provision of managerial advisory services by audit firms to the audit clients; and existence of audit committee.

2.2 Size of Audit Firm

Larger audit firms are often considered to be more able to resist pressures from management (i.e. higher auditor's independence). Abu Baker and Ahmad, 2009 proved in their empirical study that there is a positive relationship between audit firm size and audit independence. They argued that certain characteristics inherent in small audit practices may increase the danger of impairment of independence, for example, the tendency towards a more personalized mode of service and close relationship with client. However, it should not be assumed that firms act independently because the use of large audit firm is no guarantee of its ability to resist pressures from clients, as happened with Arthur Andersen and Enron.

2.3 Level of Competition in the Audit Services Market

Competition has been identified as the most important environmental change or external factor affecting auditor independence (Shockley, 1981). Firms operating in an intensely competitive environment may have difficulty remaining independent since the client can easily obtain the services of another auditor. Shockley, 1981 proved that the high level of competition in the audit firm has resulted in less auditor independence. However, Gul (1989) found the opposite. He argued that the existence of competition caused auditors to be more independent and create a favourable image in order to maintain their clients.

2.4 Tenure of an Audit Firm Serving the Needs of a Given Client

An audit firm's tenure, which is the length of time it has been filling the audit needs of a given client, has been mentioned as having an influence on the risk of losing an auditor's independence. A long association between a company and an accounting firm may lead to such close identification of the accounting firm with the interests of its client's management that truly independent action by the accounting firm becomes difficult pointed out that complacency, lack of innovation, less rigorous audit procedures and a learned confidence in the client may arise after a long association.

The United States Congressional Subcommittee on Reports, Accounting and Management considered that the above dangers are serious enough to recommend the mandatory rotation of auditors as a possible remedy. Rotation ensures that the auditor remains independent since tenure will be limited and any vested interest will no longer be relevant. Nevertheless, this suggestion has been opposed, in studies conducted by Shockley, 1981, tenure was not found to have a significant impact on perception on independence.

2.5 Size of Audit Fees Received by Audit Firm (in relation to total percentage of audit revenue)
Large size of audit fees is normally associated with a higher risk of losing the auditor's independence. The IFAC's Code of ethics for professional Accountants suggests that client size (measured from size of fees) could raise doubts as to independence. In Malaysia, the MIS By Law (Section B-1.98 on Professional Independence) has emphasized that "if the total fees (arising from assurance and non-assurance services) generated by one assurance client or its related entities exceed 15% of the firm's total fees in each year over two consecutive financial periods, financial dependency shall be considered to exist, in which case, a self-interest threat to independence is created. In such event, the only course of action is to refuse to perform or withdraw from the assurance engagement."

Most empirical studies conducted on size of audit fees do not look at the factor above, instead they inter-relate it with other factors. For example, Shockley, 1981 suggests that the adverse effects of Management Advisory Services, the size of the audit firm and competitive on a third party's audit independence actually arise because of the link of these variables to audit fees. Nevertheless, there is a study that proves otherwise. Gul, 1989 proved that each independence related variable namely Management Advisory Services, competition and audit firm size, after audit independence in its own right. He also found size of audit fees to be an important determinant of audit fee (measured as a percentage of office revenues to the audit firm), though do not show any significant impact on audit independence, have influenced respondents to feel less confidence in the auditor's independence.

2.6 Provision of Management Advisory Services (MAS) by Auditors
MAS may include investment banking strategic management planning, human resource planning, computer hardware and software installation internal audit outsourcing, risk assessment and business performance management. An extensive debate is raging in the literature about the compatibility of consulting and audit service. In line with this, several empirical surveys were conducted in order to find how third parties, auditors and firms view this issue. The results are, however, inconclusive, suggesting that the effect of Management advisory services on perceptions of audit independence is complex and other factors such as cultural differences of the subjects may also be a significant factor in the way management advisory services are viewed in the context of auditor independence. Shockley, believed that collateral services create a working relationship between the auditor and the client that is too close and that the provision of management advisory services negatively affected audit independence.

2.7 Audit Committees
An audit committee is a selected number of members of a company's board of directors whose responsibilities include helping the auditors remain independent of management. For that reason, there is much support to suggest a positive relationship between audit committees and auditor independence.

According to SOX section 301, the audit committee carries out its responsibility over the financial reporting process by

(i) appointing, overseeing and compensating the independent and compensating the independent auditor;
(ii) establishing procedures for handling complaints about accounting, auditing and internal control; and
(iii) establishing procedures for the submission of concerns about questionable accounting and auditing matters.

3. Methodology

3.1 Research Design
This research was designed to capture the influence of audit independence on financial reporting in Nigeria. A combination of archival method and Survey research methods was used. Survey research method was used to gather information from respondents concerning their opinions on the impact of audit independence on financial

reporting. This research strategy was considered appropriate because it facilitates a comprehensive and detailed view of the major questions raised in the study. According to Saunders, et al. (2007), survey research design can be used to suggest possible reasons for particular relationships between variables. It permits control over the research process (Descombe, 2003).

3.2 Population

The study is on the impact of the audit independence on the quality of financial reporting in Nigeria, the population of the study is made up of two groups of respondents. One, seven hundred auditing firms in Nigeria and two, users of financial statements based in Lagos were included in the population for the study.

3.3 Samples and Sampling Technique

Esan and Okafor (1995) described a sample as a subset of a population selected to meet specific objectives. It results in the reduction of the amount of data to be collected by considering only data from a subgroup rather than all possible elements. This makes economic sense and decreases the time spent on the study. Sampling is useful when it is impracticable, impossible or extremely expensive to collect data from all potential units of analysis covered by the research problem. A sample consisting of respondents in Lagos was considered a good representative of the respondent groups for this study, since the ultimate test of a sample design is how well it represents the characteristics of the population it purports to represent (Emory and Cooper, 2003). A random sample of four hundred and ten was targeted for the respondent groups. These are made up as follows:

Group	No. sampled
Auditors	100
Shareholders	100
Brokers	40
Analysts	40
Regulators	40
Management	40
Academics	40
Others	30
	430
	===

The choice of this sample size was guided by literature on the maximum and minimum practical sample sizes for statistical testing. Descombe (2003) suggested that a sample size of not less than thirty (30) subjects per group category for any statistical test.

3.4 Validation of Instrument

The research instrument was subjected to content validity. Content validity is the extent to which the test adequately covers the areas, syllabus or same segment designed to be tested (Kerlinger, 1973). To ensure content validity of the instrument used for the study, a first draft of the questionnaire based on the suggested recommendations, revisions were made. The revised copy was given to a Doctorate student in accounting and other professional colleague in accounting. Their useful recommendations were incorporated into the final draft of the questionnaire. The various recommendations actually helped in reducing the length of the survey instrument.

3.5 Statistical Tool/Analytic Procedure

Analysis means the ordering, categorizing and summarizing of data to obtain answer to research hypothesis. The purpose of this analysis is to put data collected into manageable and intelligible form so that the relation of research problem can be studied and tested. The primary data were analysed using descriptive and inferential statistics (t-Tests). The descriptive method described the demography of respondents using frequency and percentages. Also, regression analysis was employed to analyse the secondary data. Inferential statistics were performed at a 0.05 level of significance using SPSS version 17.0.

Table 1: SUMMARY OF QUESTIONNAIRE DISTRIBUTION AND RESPONSE

Copies of Questionnaire	USERS OF FINANCIAL INFORMATION								
	Auditors	Shareholders	Brokers	Analysts	Regulators	Management	Academics	Others	TOTAL
GIVEN OUT	100	100	40	40	40	40	40	30	430
NO. RETURNED	73	94	28	40	24	40	33	24	356
% RETURNED	73%	94%	70%	100%	60%	100%	82%	80%	82%
UNUSABLE RESPONSE	-	-	-	-	-	-	-	6	6
USABLE RESPONSE	73	94	28	40	24	40	33	18	350
%OF USABLE RESPONSE	73%	94%	70%	100%	60%	100%	82%	60%	81%

Source: Questionnaire Distributed

From Table 1, the percentage of usable responses is 81%. This is very high compared with the percentage of unusable responses of the questionnaire administered which totalled 6(0.01). This could be traced to the high level of literacy of the respondents and monitoring of collection of administered questionnaire by the researcher. Out of a total of 430 copies of questionnaire distributed across auditors, shareholders, brokers, analysts, regulators, management, academics and other users of financial information, 356(82%) were returned, of which 6(0.01%) were unusable. In the category of auditors 73(73%) out of 100 questionnaire given out were returned. For the shareholders category 94(94%) out of 100 questionnaire given out were returned. In the brokers category 28(70%) out of 40 questionnaire given out were returned. In the analysts category 40(100%) questionnaire given out were returned. In the category of regulators 24(60%) out of 40 questionnaire given out were returned. In the management category 40(100%) were returned. In the academics category 33(82%) out of 40 questionnaire given out were returned. In the category of others 24(80%) out of 30 questionnaire given out were returned. There were 350(81%) copies of questionnaire of usable response in which data gathered from them were used to test hypotheses and answer research questions.

4. Data Analysis and Presentation of Results

4.1 Personal Data of Respondents

Tables 2 and 3 show the gender and age categories of the 350 respondents who returned usable copies of distributed questionnaire of whom 233(66%) were males and 117(33%) were females. Sixty-eight percent (68% or 238) of the respondents fall within the age brackets of 31-35 years and 36-40 years old. This shows that majority of the respondents were matured.

Table 2: RESPONDENTS' SEX

INTEREST IN FIN REPORTS	RESPONDENTS' SEX		Total
	female	Male	Female
Auditors	28	45	73
Shareholders	30	64	94
Brokers	4	24	28
Analysts	9	31	40
Regulators	11	13	24
Management	12	28	40
Academics	13	20	33
Others	10	8	18
Total	117	233	350

Source: Field Study, 2010

Table 3: AGE CATEGORY

AGE CATEGORY	RESPONDENTS' SEX		Total
	female	Male	female
20-25 years	4	3	7
26-30 years	31	41	72
31-35 years	49	74	123
36-40 years	30	85	115
above 40 years	3	30	33
Total	117	233	350

Source: Field Study, 2010

In Table 4, years of working experience was organized according to the interests of the respondents in financial reporting. Eight interest groups were identified; Auditors, Shareholders, Brokers, Analysts, Regulators, Management, Academics and others. Seventy four respondents or 21% had experience of over 15 years. People with experience of 11-15 years were 118 or 33%. This shows that majority of the respondents were enlightened about the issue of audit independence and financial reporting in contention in this study.

Table 4: YEARS OF WORKING EXPERIENCE

INTEREST IN FIN REPORTS	YEARS OF EXPERIENCE				Total
	1-5 years	6-10 years	11-15 years	above 15 years	1-5 years
Auditors	16	8	22	27	73
Shareholders	4	40	30	20	94
Brokers	0	9	18	1	28
Analysts	10	0	10	20	40
Regulators	0	2	21	1	24
Management	0	29	6	5	40
Academics	15	7	11	0	33
Others	18	0	0	0	18
Total	63	95	118	74	350

Source: Field Study, 2010

4.2 Analysis of Data According to Research Questions

Here, answers provided by the respondents to the questionnaire items were analysed and interpreted to arrive at conclusions. The primary data were analysed, the hypotheses were tested and conclusions were based on the results of the analysis.

4.3. Research Question 1:

This research question seeks to determine the relationship between external audit quality and the quality of financial reporting in Nigeria. Quality of external audit was operationalised with two questionnaire items 1and 3. The descriptive statistics in respect of the two items are presented in Tables 5 and 6. The quality of external audit would be impaired if auditors collect loans from their client organization. Such relationship will negatively impact on the auditors independence. In Table 4.04, not less than 49.4 of the respondents were of the opinion that auditors in Nigeria collect loans from their clients. Only 32.8% either disagreed or strongly disagreed with the statement that auditors collect loans from their clients. About 17.7% of the respondents were undecided. It appears that most respondents answered the question in the affirmative.

Table 5: Auditors collect loans from their client organisations

INTEREST IN FININANCIAL REPORTS		Auditors collect loans from their client organisations					Total
		Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree	
Auditors	Count	10	38	12	6	7	73
		13.7%	52.1%	16.4%	8.2%	9.6%	100.0%
Shareholders	Count	8	11	13	35	27	94
	Percentage (%)	8.5%	11.7%	13.8%	37.2%	28.7%	100.0%
Brokers	Count	2	2	13	11	0	28
	Percentage (%)	7.1%	7.1%	46.4%	39.3%	.0%	100.0%
Analysts	Count	2	4	3	18	13	40
	Percentage (%)	5.0%	10.0%	7.5%	45.0%	32.5%	100.0%
Regulators	Count	5	6	6	5	2	24
	Percentage (%)	20.8%	25.0%	25.0%	20.8%	8.3%	100.0%
Management	Count	6	9	5	12	8	40
	Percentage (%)	15.0%	22.5%	12.5%	30.0%	20.0%	100.0%
Academics	Count	2	2	6	11	12	33
	Percentage (%)	6.1%	6.1%	18.2%	33.3%	36.4%	100.0%
Others	Count	4	4	4	4	2	18
	Percentage (%)	22.2%	22.2%	22.2%	22.2%	11.1%	100.0%
Total	Count	39	76	62	102	71	350
	Percentage (%)	11.1%	21.7%	17.7%	29.1%	20.3%	100.0%

Source: Administered questionnaire analysed

From Table 6, not less than 49% of the respondents agreed or strongly agreed that auditors in Nigeria receive benefits of goods and services from their client. About 32% were however of a different opinion. The conclusion tilts in favour of receipt of benefits which could undermine audit quality. Even among auditor respondents, the answer was not in favour of audit independence and audit quality.

Table 6: Auditors receive benefits of goods/services from their client.

INTEREST IN FININANCIAL REPORTS		Auditors receive benefits of goods/services from their client company					Total
		Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree	Strongly Disagree
Auditors	Count	10	38	12	6	7	73
	Percentage(%)	13.7%	52.1%	16.4%	8.2%	9.6%	100.0%
Shareholders	Count	8	11	13	35	27	94
	Percentage(%)	8.5%	11.7%	13.8%	37.2%	28.7%	100.0%
Brokers	Count	2	2	13	11	0	28
	Percentage(%)	7.1%	7.1%	46.4%	39.3%	.0%	100.0%
Analysts	Count	2	4	3	18	13	40
	Percentage(%)	5.0%	10.0%	7.5%	45.0%	32.5%	100.0%
Regulators	Count	5	6	6	5	2	24
	Percentage(%)	20.8%	25.0%	25.0%	20.8%	8.3%	100.0%
Management	Count	6	9	5	12	8	40
	Percentage(%)	15.0%	22.5%	12.5%	30.0%	20.0%	100.0%
Academics	Count	2	2	6	11	12	33
	Percentage(%)	6.1%	6.1%	18.2%	33.3%	36.4%	100.0%
Others	Count	4	4	4	4	2	18
	Percentage(%)	22.2%	22.2%	22.2%	22.2%	11.1%	100.0%
Total	Count	39	76	62	102	71	350
	Percentage(%)	11.1%	21.7%	17.7%	29.1%	20.3%	100.0%

Source: Administered questionnaire analysed

Tables 7 and 8 present the respondents opinions on the quality of financial reporting in Nigeria. Questionnaire items 6 and 18 were designed to operationalised quality of financial reporting in Nigeria.

In Table 7, about 37% of the respondents agreed that auditors assist in preparing financial statements for the management of their client companies. Though 56% were of the opposite opinion 37% affirmation appears to be significant enough for one to conclude that a situation where auditors prepare the financial statements they were supposed to audit, the quality of such financial statements might be compromised.

Table 7: Auditors assist in preparing financial statements for the management of his client company

		Auditors assist in preparing financial statements for the management of their client company					Total
		Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree	Strongly Disagree
Auditors	Count	22	47	0	4	0	73
	Percentage (%)	30.1%	64.4%	.0%	5.5%	.0%	100.0%
Shareholders	Count	0	0	0	84	10	94
	Percentage (%)	.0%	.0%	.0%	89.4%	10.6%	100.0%
Brokers	Count	0	0	0	0	28	28
	Percentage (%)	.0%	.0%	.0%	.0%	100.0%	100.0%
Analysts	Count	14	11	13	0	2	40
	Percentage (%)	35.0%	27.5%	32.5%	.0%	5.0%	100.0%
Regulators	Count	18	6	0	0	0	24
	Percentage (%)	75.0%	25.0%	.0%	.0%	.0%	100.0%
Management	Count	0	31	9	0	0	40
	Percentage (%)	.0%	77.5%	22.5%	.0%	.0%	100.0%
Academics	Count	10	23	0	0	0	33
	Percentage (%)	30.3%	69.7%	.0%	.0%	.0%	100.0%
Others	Count	0	15	0	3	0	18
	Percentage (%)	.0%	83.3%	.0%	16.7%	.0%	100.0%
Total	Count	64	133	22	91	40	350
	Percentage (%)	18.3%	38.0%	6.3%	26.0%	11.4%	100.0%

Source: Administered questionnaire analysed

Table 8 shows the respondents opinion of the other questionnaire item included to ascertain the quality of financial reports in Nigeria. A predominant 81% of the respondents agreed that in Nigeria, audit fees and non-audit fees are disclosed in companies' financial statements. Only 6% were of the view that audit and non-audit fees were not properly disclosed in the corporate financial statements. Contrary to the situation in Table 7, the results in Table 8 suggests that the quality of financial statements in Nigeria is good.

Table 8: In Nigeria, audit fees and non-audit fees are disclosed in companies' financial statements.

INTEREST IN FINANCIAL REPORTS		In Nigeria, audit fees and non-audit fees are disclosed in companies' financial statements.					Total
		Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree	
Auditors	Count	0	1	1	45	26	73
	Percentage (%)	.0%	1.4%	1.4%	61.6%	35.6%	100.0%
Shareholders	Count	1	5	13	44	31	94
	Percentage (%)	1.1%	5.3%	13.8%	46.8%	33.0%	100.0%
Brokers	Count	0	0	2	6	20	28
	Percentage (%)	.0%	.0%	7.1%	21.4%	71.4%	100.0%
Analysts	Count	2	3	8	13	14	40
	Percentage (%)	5.0%	7.5%	20.0%	32.5%	35.0%	100.0%
Regulators	Count	0	0	3	12	9	24
	Percentage (%)	.0%	.0%	12.5%	50.0%	37.5%	100.0%
Management	Count	0	2	9	18	11	40
	Percentage (%)	.0%	5.0%	22.5%	45.0%	27.5%	100.0%
Academics	Count	0	3	3	17	10	33
	Percentage (%)	.0%	9.1%	9.1%	51.5%	30.3%	100.0%
Others	Count	3	2	3	7	3	18
	Percentage (%)	16.7%	11.1%	16.7%	38.9%	16.7%	100.0%
Total	Count	6	16	42	162	124	350
	Percentage (%)	1.7%	4.6%	12.0%	46.3%	35.4%	100.0%

Source: Administered questionnaire analysed

4.4 Hypothesis I:

There is no significant positive relationship between audit quality and the quality of financial reporting as observed by stakeholders in financial reporting in Nigeria.

Hypothesis 1 was proposed in order to provide inferential evidence about the impact of audit quality on the quality of financial reporting. This hypothesis was tested using t-test (related samples). The result is shown in Table 9.

Table 9: Test of Hypothesis 1 (Pair-sample t-test)

INTEREST IN FINANCIAL REPORTS		Paired Differences					
		Std. Error Mean	95% Confidence Interval		t	df	Sig. (2-tailed)
			Lower	Upper			
Auditors	Quality of Financial Reporting and Audit Quality	.12415	.33471	.82967	4.690	72	.000
Shareholders	Quality of Financial Reporting and Audit Quality	.13149	.15909	.68133	3.196	93	.002
Brokers	Quality of Financial Reporting and Audit Quality	.14515	1.34503	1.94069	11.318	27	.000
Analysts	Quality of Financial Reporting and Audit Quality	.21624	-1.34988	-.47512	-4.220	39	.000
Regulators	Quality of Financial Reporting and Audit Quality	.29011	-.55847	.64180	.144	23	.887
Management	Quality of Financial Reporting and Audit Quality	.23197	-.55670	.38170	-.377	39	.708
Academics	Quality of Financial Reporting and Audit Quality	.22768	-1.47893	-.55138	-4.459	32	.000
Others	Quality of Financial Reporting and Audit Quality	.42100	-.86046	.91601	.066	17	.948

Source: Administered questionnaire analysed

Across the stakeholders in financial reporting, the result from the Test of the hypothesis was significant. Exceptions were, however, recorded in respect of Regulators, Management and Others. Nevertheless, it can be concluded that there is a significant positive relationship between audit quality and the quality of financial reports observed in Nigeria for Auditors, Shareholders, Brokers, Analysts and Academics.

4.5 Research Question II:
Does audit firm rotation enhance audit independence in Nigeria?

4.6 Test of Hypothesis II:
Audit Firm Rotation does not have a significant relationship with audit quality in Nigeria.

This hypothesis was formulated in order to answer Research Question II. The result is presented in Table 10.

Table 10: Test of Hypothesis II (Paired Samples t-Test)

	Paired Differences			t	df	Sig. (2-tailed)
	Std. Error Mean	95% Confidence Interval				
		Lower	Upper			
Audit Quality - Audit Firm Rotation	.09378	-.34160	.02731	-1.676	349	.095

Source: Administered questionnaire analysed

From Table 10, the p-value > 0.05, therefore the hypothesis could not be supported. It is therefore concluded that audit firm rotation does not necessarily enhance audit independence in Nigeria. This could be due to the unity of professional attitude among auditors and similarity in cultural bias and orientation.

4.7 Research Question III:
NON AUDIT SERVICES AND QUALITY OF FINANCIAL REPORTING
Items 6 and 18 of the administered questionnaire proxied the quality of financial reporting in Nigeria. Similarly, items 12, 13, 14, 15 and 16 of the administered questionnaire were used to collect data on non-audit services.
Among the five items designed to measure response to non-audit services, rendering of expert services to management has the highest mean score of 4.08. This is followed by rendering of investment services to clients (3.5257). Rendition of human resources services to management recorded the least mean score of 3.2314. Auditors also render valuation services and design financial information systems for clients.

Table 11: Descriptive Statistics (Components of Non-Audit Services)

	N	Minimum	Maximum	Mean	Std. Deviation
In many public companies the auditor designs the financial information system	350	1.00	5.00	3.5029	1.02616
Auditors in my country render valuation services to my management	350	1.00	5.00	3.3086	1.12369
Auditors in Nigeria render investment services to their client companies	350	1.00	5.00	3.5257	1.02304
Auditors provide human resources or management functions to their client companies	350	1.00	5.00	3.2314	1.14087
Auditors usually render expert services to management	350	1.00	5.00	4.0829	.91250

Source: Field Study, 2010

The descriptive for composite measures for Quality of financial reporting and Non-Audit Services are presented in Table 11. The two measures tally in the minimum and maximum score of 1 and 5 respectively. Quality of financial reporting has a mean score of 3.42 while Non-Audit Services returned a mean score of 3.5371. These mean scores were used in testing Hypothesis iii.

4.8 Hypothesis iii:

The paired sample t-test shows a p-value of 0.021. Since the result is less than 0.05, the hypothesis could not be retained. It is therefore concluded that provision of non-audit service would likely have a significant effect on the quality of financial reporting in Nigeria (Table 13).

Table 12: Descriptive Statistics (Quality of Financial Reporting Vs. Non-Audit Services)

	N	Minimum	Maximum	Mean	Std. Deviation
Quality of Financial Reporting	350	1.00	5.00	3.4171	.82770
Non-Audit Services	350	1.50	5.00	3.5371	.78537
Valid N (listwise)	350				

Source: Administered Questionnaire Analysed

Non-Audit Services does not have a significant effect on the quality of financial reporting in Nigeria.

Table: 13: Hypothesis III Table Paired Samples t-Test

	Std. Error Mean	95% Confidence Interval of the Difference		t	df	Sig. (2-tailed)
		Lower	Upper			
Quality of Financial Reporting - Non-Audit Services	.05166	-.22160	-.01840	-2.323	349	.021

Source: Administered Questionnaire Analysed

4.9 Research Question IV

Are the professional and regulatory standards on audit independence in Nigeria adequate?

Items 19 and 20 of the administered questionnaire addressed the issue of professional and regulatory standards in Nigeria. The results of the analysis of responses are stated below. Table 14 contains the descriptive statistics of the two items used. The mean score of the respondents for the improvement in financial reporting as a result of the auditing standards issued by the Institute of Chartered Accountants of Nigeria (ICAN) is 3.8371. Similarly, the respondents perceived the vital role played by the regulatory bodies in the accounting profession in ensuring a sound financial reporting with a mean score of 3.45.

Table 14 Descriptive Statistics (Professional and Regulatory Standards)

	N	Minimum	Maximum	Mean	Std. Deviation
The regulatory bodies in accounting profession have been playing vital roles in ensuring a sound financial reporting in Nigeria	350	1.00	5.00	3.4457	1.04136
Auditing standards issued by ICAN has greatly improved the quality of financial reporting in Nigeria	350	1.00	5.00	3.8371	.78619
Valid N (listwise)	350				

Source: Administered Questionnaire Analysed

Table 15: Descriptive Statistics (Professional and Auditing Standards)

	N	Minimum	Maximum	Mean	Std. Deviation
Professional and Auditing Standards	350	1.50	5.00	3.6414	.68183
Valid N (listwise)	350				

Source: Administered Questionnaire Analysed

Table 15 showed the combined mean score for the two items as 3.6414. These descriptive statistics shows that ICAN, along with other regulatory bodies, were perceived as playing a remarkable role in ensuring good financial reporting in Nigeria.

4.10 Hypothesis IV

There is no significant relationship between professional and regulatory pronouncements and audit independence in Nigeria.

This hypothesis sought to determine if there was any significant difference in the roles played by professional (audit standards) and other regulatory standards in ensuring auditors independence and thereby improving financial reporting in Nigeria. The result of hypothesis iv as revealed by Table 16 shows that p-value < 0.05. Therefore, it is concluded that the hypothesis that there is no significant relationship between professional and regulatory pronouncements and audit independence in Nigeria cannot be accepted. It can therefore be inferred that professional and regulatory pronouncement complement each other in enhancing audit independence in Nigeria.

Table 16: Test of Hypothesis IV Paired Samples Test

		95% Confidence Interval of the Difference				
	Standard Error	Lower	Upper	t	df	Sig. (2-tailed)
Professional and Auditing Standards - Audit Independence	.05753	.13113	.35744	4.246	349	.000

Source: Administered Questionnaire Analysed

5. SUMMARY

The purpose of this research work was to examine the impact of audit independence on financial reporting in Nigeria. Reliable information is necessary if managers, analysts, brokers, regulators, shareholders and academics are to make informed decisions about resource allocation. Auditing plays an important role in this process by providing objective and independent reports on the reliability of financial and nonfinancial information contained in the financial statements reported to corporate stakeholders. It is apparent, that as auditors take decisions that are capable of influencing the business owners, the decisions can also directly or indirectly influence the operations of the business. To reduce the incidents of wrong decisions being taken and ensure correct reporting of states of affairs of a business the audit function becomes a necessity, especially for publicly quoted companies.

In conducting this research work, a cross-sectional survey was conducted to capture the opinion of auditors, shareholders, brokers, analysts, regulators, management, academics and other respondents regarding the impact of audit independence on financial reporting in Nigeria. A total number of 430 respondents were sampled and 350 usable returned copies of the questionnaire were used in the conduct of the research in the category of primary data analysis. In the secondary data analysis 40 companies quoted on the Nigerian Stock Exchange were examined of which there were 26 companies in the non-financial sector (manufacturing and trading) and 14 companies in the financial sector. The data gathered were used to test the research hypotheses and to answer some of the research questions. The outcome of the tests revealed that, among other factors capable of determining the impact of audit independence on financial reporting in Nigeria, the most significant is multiple directorship with a $p<0.05$. This finding agreed substantially with the conclusion reached in Ismail, et al. (2008), whose research design was similar to the current study.

6. CONCLUSION

The results of hypothesis I tested revealed that there is a significant positive relationship between audit quality and the quality and the quality of financial reporting observed in Nigeria for Auditors, shareholders and Brokers, Analysts and Academic. This means correlation is positive and significant at the at the 0.01 level of significance. The results of hypothesis II tested showed that audit firm rotation does not necessarily enhance audit independence in Nigeria This was tested at a p-value>0.05; therefore this hypothesis could not be supported. This could be due to the unity of professional attitude among auditors and similarity in cultural bias and orientation. Hypothesis iii stated that provision of non-audit service would likely have a significant effect on the quality of financial reporting in Nigeria.

In the same vein, hypothesis 4 sought to determine if there was any significant difference in the roles played by professional (audit standards) and other regulatory standards in ensuring auditors' independence and thereby improving financial reporting in Nigeria. The result of the hypothesis tested shows that p-value <0.05. Therefore it is concluded that the hypothesis that there is no significant relationship between professional and regulatory pronouncements and audit independence in Nigeria cannot be accepted. It can therefore be inferred that professional and regulatory pronouncements complement each other in enhancing audit independence in Nigeria.

The mean score of the respondents for the improvement in financial reporting as a result of the auditing standards issued by the Institute of Chartered Accountants of Nigeria (ICAN) is 3.84. Similarly, the respondents perceived the vital role played by the regulatory bodies in the accounting profession in ensuring a sound financial reporting with a mean score of 3.45. From the foregoing, it could be concluded that ICAN along with other regulatory bodies were perceived as playing a remarkable role in ensuring good financial reporting in Nigeria.

7. RECOMMENDATIONS

This study has attempted to observe the impact of audit independence on financial reporting in Nigeria. It has also provided explanations for the empirical findings from the study. Therefore the following recommendations are made:
Firstly, in Nigeria, it appears that audit standards setting is dominated by Accountants (ICAN). Efforts should be made to raise awareness level and secure the interest of other stakeholders, other regulators, companies, auditors and analysts who belong primarily to other disciplines. It would be recommended that there should be a wider number of stakeholders in order to ensure that auditing standards and regulatory pronouncements are received with greater acceptance and sense of belongingness.

There is the need to strengthen the capacity of the regulatory bodies and review adequacy of statutory enforcement provisions, this will enable the regulators to effectively deal with accounting and financial reporting practices of the regulated entities properly.

Finally, it is recommended that the independence of the board of audit committee should be encouraged in companies. This would improve the decision making process of the companies.

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