

Auditor's Independence (AUDINDP) and the Quality of Financial Reporting (FRQ) in Listed Deposit Money Banks (DMB's) in Nigeria

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Abstract: This research evaluates the impact of the AUDINDP on the quality of FRQ in listed DMB's in Nigeria. The necessity for auditors' independence is fundamental for completion of the audit reporting process. Autonomy of the auditor reveals in technical, investigative as well as reporting practices. For an audit report to be openly certified as capturing the true picture of things, the auditors ought to be viewed to be certainly autonomous. The population for this research comprised of 20 listed DMB's in Nigeria. Purposive non-probability sampling method was employed to select the sample of ten (10) banks. Secondary data was adopted and likewise gathered from certified corporate annual report of the sampled DMB's. Descriptive tests, correlation analysis as well as panel OLS regression was adopted for analysis purposes. The research discovered that there exists a positive association amid AUDINDP and FRQ in DMB's. AUDINDP is a major audit quality in financial reporting. Auditors and professional accountants should follow the integrity of autonomy to realize credibility as well as reliability demanded from FR.

Keywords: Financial Reporting Quality, Auditor's Independence, Firm Size, Non-Audit Services, Audit Report

I. INTRODUCTION

Most recently, it is necessary to produce financial reports which are relevant globally. Hence, disclosing high quality financial statements is vital since it will positively impact providers of funds as well as other investors in taking investment as well as related funding decisions. IASB (2008) specified revealing the IASB's conceptual system as a key condition for financial reporting quality which is the compliance with its objective as well as the qualitative features of financial statements.

Tasios and Bekiaris (2012) indicated that fundamental qualitative factors entail relevance as well as faithful representation. IASB (2008) explained that enhancing qualitative characteristics (comparability, verifiability, timeliness and understandability) augment the fundamental qualities. In recent times, auditors have been indicted on account of involvement pronounced as detrimental and anti-social behavior strictly for the goal of high fees. The importance of auditor autonomy was hinged upon significant corporate scandals such as the insolvency filing of Enron on the 2nd December, 2001 for twelve months. The audit deficiency issues that were recorded across the world for

instance Enron (USA), Northern Rock (UK), Metagelshaft (Germany), Parmalat (Italy) and Lever Brothers; Cadbury (Nigeria) brought a need to reevaluate AUDINDP. Consequently, auditors grapple with credibility matters stemming from the prevalent public insight that auditors have no autonomy from corporate directors and this leads to the worry about the audit quality.

These frauds negatively influenced public perception. In relation to this, supervisory bodies for auditing profession have specified that such events have the capacity to portend the auditing profession and have much broader economic effect. The objective of this research is to observe the impact of AUDINDP on the quality of financial reporting in listed DMB's in Nigeria. The paper will provide an in-depth insight into auditor's autonomy. The need for the auditor's autonomy arises as it adds reliability and assurance to the financial statements. The study would increase the knowledge of stakeholders in understanding what to expect in a qualitative financial report. It would also enlighten them on what to and what not to expect from the report and how to properly construe the contents of the report. The study is useful to accountants and auditors as it stresses the importance independence, objectivity and professionalism and how to maintain this crucial attribute.

II. LITERATURE REVIEW

2.1 Auditor Independence

Okolie (2007) posted that independence is crucial because of the belief that the professional accountant/auditor is needed to give validation as well as reliability to report organized by the corporate entity. The auditor's declarations still lends credence to the accounting reports even in situations of no significant misstatements as well as errors in the accounting reports by certifying the nonexistence of such.

Albeksh (2017) defined AUDINDP as the auditor's capacity to uphold an objective as well as unbiased mental perception, being neutral during the course of the audit, analyzing the outcomes as well as verification in the prepared audit report. Auditors ought to be neutral actions, personal look and behavior. Hence, auditors should possess individual specifications such as expert knowledge and know how;

professional aptitude; capability; as well as attitude of healthy professional skepticism which are crucial factors impacting the quality of professional discernment for auditor.

2.2 Risks and Threats to Auditor Independence

Oladele (n.d.) explained five kinds of threats impacting auditor independence. They include:

- i. Self-interest: This arises when an auditor functions on emotional, financial as well as other individual self-interest.
- ii. Self-review: This is threat of bias occurring where an auditor reviews his or her own operations or that of an associate.
- iii. Advocacy: This arises where an auditor functions as a supporter for or against a client.
- iv. Familiarity: the threat that arises when an auditor is being subjective to a close or personal bond with a client.
- v. Intimidation: the danger that occurs where an auditor is being, or considers that he or she is being, evidently pressured by an ongoing audit client. Furthermore, even though some contain conscious doings by auditors in his self-interest, others may happen attributable to unintended biases.

Okolie (2007) highlighted safeguards such as the rotation of auditors because the reappointment of a particular auditor may cause threat of self-interest as well as self-review. Hence, some benefits of safeguards to ethical threats that will increase auditor's freedom is the improved audit quality; improved dependability of financial numbers for users; and better name for both the corporate auditors and their auditing organization.

2.3 Elements of Auditor Independence

Albeksh (2017) listed the elements that impact auditor's autonomy such as objective elements like audit firm size, non-audit services (NAS), tenure of audit, competition in the audit service sector; and personal elements like the auditor's credentials, auditor's experience, integrity, objectivity and independence which is the main focus in this work.

However, for the objective of this research the main factors and variables used for measuring the independent variable which is auditor's independence.

2.4 Size of Audit Firm

Adeyemi and Okpala (2011) identified that bigger auditing firms are regularly seen as being able to withstand more pressures from management, that is, higher auditor's independence compared to small audit firms.

Sori (2016) explained that auditor autonomy might also be impacted by audit firm size. This is due to better economic assets as well as research services, loftier technology as well as more endowed teams to undertake huge clients' audits as opposed to smaller auditing firms. Also, bigger auditing companies have more robust client collections, which assist

them to effortlessly withstand management demands; notwithstanding, smaller firms are seen to offer more personalized services as a result of restricted client collections. It could be that the auditing firm size is critical to supposed auditor autonomy since small companies are incapable of accessing suitable financial assets, investigative services as well as workforce to execute an inspection of large clienteles (Mautz & Sharaf, 1961).

Furthermore, small/medium companies would encounter the danger of dependency on a particular customer which is also called economic dependency since the size of the entity's client is small when compared to that of bigger establishments. Auditing entities with big client cases might have stronger spurs to guard their reputation as well as autonomy (DeAngelo, 1981). There is also the notion that bigger firms have more tendencies to disclose more information relative to small audit firms. Accordingly, sustaining auditor autonomy is more critical for smaller firms than bigger companies.

Sori (2016) specified that audit firm size appears to be an essential feature to impact the views of auditor autonomy. This allows users of corporate financial reports to openly scrutinize the audit procedure and this aids them in discerning the integrity of information in the financial statements (DeAngelo, 1981).

2.5 Non-Audit Services (NAS)

Jenkins (1999) explained that NAS are services offered by audit established which does not cover audits such as bookkeeping, tax evaluation, advisory functions containing investment banking aids, corporate strategic planning, human resource planning, computer hardware, software setting up, implementation, as well as internal audit subcontracting.

However, significant non-audit services revenue can cause conflict of interest since it diminishes public opinion on audit quality for the financial reporting. This has more influence on auditor's autonomy because when the auditor is covering both audits as well as non-audit services to a particular customer; this could result to conflict in interest and reduce the autonomy of the auditor. Consequently, this raises another debate in the audit profession whether the audit firm can maintain both their autonomy and objectivity when providing audit as well as non-audit services.

Hudaib (2003) mentioned that some nations such as United States prohibit auditors from proposing both audit as well as non-audit services while other nations like Italy and Saudi Arabia forbids all non-audit services excluding tax services.

2.6 Theoretical Review

Agency theory captures the connection amid two parties, that is, the investors and agent. Here, the responsibility of the auditing firm is to oversee the connection amid the directors and the principals. Agency theory is adopted in explaining the impact of auditor autonomy on FR quality. This implies that

auditors function as representatives to business owners when carrying out an audit which creates related issues regarding trust as well as confidence in the director-shareholder connection. Thus, as far as independence and objectivity are concerned auditors need to be aware of threats to objectivity and employ suitable safeguards where needed. Reputation is a major factor for fostering trust and auditor autonomy is a vital quality that shareholders crave. Auditors have a crucial mandate to maintain autonomy to preserve their reputation and thereby help them to retain and win audits.

2.7 Financial Reporting Quality (FRQ)

Jonas and Blanchet (2000) defined FRQ to be the financial disclosure reports that will reveal the financial capability in the corporate report and support the investors' self-confidence in carrying out reliable decisions concerning their organizations.

Nwaobia, Kwarbai and Ajibade (2016) highlighted the main gauges of financial information quality and these are relevance as well as faithful representation. These are the main proxies for financial reporting quality.

Relevance: Information is relevant when it assists users of financial information in making better choices.

Faithful representation: This suggests that all the information in the corporate reports ought to be comprehensive, precise, unbiased as well as free from errors.

Understandability: This refers to the procedure of organizing, sorting as well as publishing the financial information accurately as well as concisely.

Comparability: Information is comparable when we can discover similarities as well as variances amid two common sets or transactions of economic value.

Verifiability: This guarantees users that financial reports denote the economic occurrences it poses to disclose.

Timeliness: Accounting numbers might become less valuable if there exists an interruption in communicating it.

Stakeholders too frequently view the audit report as a distinct statement when, in actual fact, the processes as well as controls that guarantee the wide-ranging integrity of the audit report should be issued by an independent and objective auditor. This includes the entity's recording of corporate information to the correct audit, and the presentation of the annual corporate statement. As expected, FRQ is dire to investor confidence as well as transparency is unwaveringly reliant on the quality of the audit opinion and the financial report.

2.8 Empirical Review

Some previous researchers such as Beuselinck and Manigart (2007) and Beest et al (2009) indicated from their results that relevance, faithful representation and understandability are the

key qualitative characteristics of the financial reporting that is highly linked with auditor's autonomy.

Nwanyanwu (2017) examined auditor autonomy as a measure of audit quality by using descriptive statistics, Pearson correlation as well as stepwise multiple regression and therefore concluded that AUDINDP possesses the strongest explanatory ability of changes in reliability and a prime audit quality and financial report.

Niyonzima and Akintoye (2018) explored the impact of qualitative characteristics of financial information on shareholders' value creation and their findings revealed that qualitative characteristics of financial information have significant effect on shareholder's value creation. Adeyemi and Okpala (2011) and Bekiaris (2012) studied the influence of auditor's autonomy on financial reporting quality and they found a significant and positive association between auditor's autonomy and the quality of financial reporting.

Therefore, in relation to the nexus between size of audit firm and users' confidence in the information content of financial statements. McKinley et al. (1985) undertook an experiment to study the impact of audit company type and office size on reliability of financial statements and auditor autonomy. McKinley et al. (1985) found that the type and size of the audit firm were positively linked with auditor autonomy. The respondents indicated that financial statements audited by big eight audit firm would be less likely to contain undetected fraud (proxy to measure financial statements reliability) as compared to those audited by smaller firms.

McLennan and Park (2003) reported that large audit companies have superior technology and more talented teams than smaller firms, and consequently have higher incentives to behave autonomously. Therefore, larger audit firms tend to be linked with more reliable information than are smaller audit firms (Beatty, 1989; Titman and Trueman, 1986 and Davidson and Neu, 1993).

Goldman and Barlev's (1974) argued that the provision of non-audit services enhances auditor independence through increased knowledge and understanding of the client. On the other hand, Lowe, Geiger and Pany (1999) found that the provision of internal audit services to audit clients affects the users of financial statement's perceptions of auditor independence. However, this effect could be reduced by separating the internal staff from the external staff personnel within the audit company.

Swanger and Chewning (2001) reported from their findings about users of financial statements opinion regarding auditor's autonomy when an audit firm provides both internal and external audit functions to a client. They found that when auditors deliver internal audit services for their clients, the economic bond becomes greater and this may impair auditor independence. Therefore, their findings showed that clients prefer the internal audit function to be performed by the

company’s personnel or outsourced to an audit firm other than the company’s external auditor.

III. METHODOLOGY

This research study adopted Ex-post facto research design. A panel ordinary least square regression was carried out in this study. The research population consists of twenty (20) listed DMB’s in Nigeria. Non-probability sampling called Purposive sampling was adopted to choose sample of ten (10) DMB’s in Nigeria over a period covering 2008 to 2017. Secondary data were gotten from yearly report of listed DMB’s in the country. This paper was designed to observe the influence of AUDINDP on the quality of FR in listed DMB’s in Nigeria.

$Y=f(X)$

Y will capture Quality of Financial Reporting (FRQ) the dependent variable

X will capture Auditor’s Independence (AI) the independent variable;

Proxy for Auditor’s Independence is ratio of non-audit fees to total auditor’s remuneration

$FRQ= f (AI)$

Functional Relationship

$FRQ= f (FSIZE; AUDINDP)$ Equation 1

Using multiple regression analysis, the model was modified as follows;

$FRQ_{it}= \beta_0+ \beta_1AUDINDP_{it}+ \beta_2FSIZE_{it}+ \epsilon_{it}$ Equation 2

Where,

FRQ = Financial Reporting Quality

FSIZE = Firm Size

AUDINDP = Auditors Independence

ϵ_{it} = Error Term

T = time

β_1, β_2 = Co efficient of associated variables.

Measurement of Variables

Financial Reporting Quality (FRQ): Measured by earnings predictability derived by net operating income divided by net income

Auditors Independence (AUDINDP): Measured by ratio of non-audit services fee to total fees paid to the audit firm in each fiscal year.

Firm Size (FSIZE): Measured by the natural logarithm of total asset.

IV. DATA ANALYSIS, RESULTS AND DISCUSSION OF FINDINGS

4.1 Data Analysis

The result of the data analysis is shown in Data Analysis Table 4.1 below.

Data Analysis Table 4.1:

Analysis of Hypothesis

Descriptive statistics

Correlation Analysis

	FRQ	AUDINDP	FSIZE
FRQ	1.000000	-0.212126	0.083101
AUDINDP	-0.212126	1.000000	0.177237
FSIZE	0.083101	0.177237	1.000000

Source: Authors Computation (2020)

The table above shows the relationship amid the examined variables. The purpose of this test was to test for multicollinearity between the independent variables. Using the benchmark of 80% as recommended by Okere, Isiaka and Ogunlowore (2018), it can be seen there exists no issue of multicollinearity between the independent variables.

Hausman test

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.104992	2	0.9489

Source: Authors Computation (2020)

From the analysis, it is seen that the P-value (0.9489) > 5% significance level, so the null hypothesis is accepted and the alternative is rejected. This depicts that the random effect model would be adopted for this study.

Panel regression

Dependent Variable: FRQ				
Method: Panel				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
AUDINDP	-4.152357	1.215560	-3.416005	0.0010*
FSIZE	-1.232217	1.649411	-0.747064	0.4570
C	24.96540	19.41134	1.286124	0.2018
Effects Specification				
Cross-section fixed (dummy variables)				
Weighted Statistics				
R-squared	0.346922	Mean dependent var	13.53621	
Adjusted R-squared	0.265287	S.D. dependent var	20.60686	
S.E. of regression	15.57880	Sum squared resid	21357.51	
F-statistic	4.249688	Durbin-Watson stat	2.257122	
Prob(F-statistic)	0.000047			

Source: Researcher’s Study (2020)

V. INTERPRETATION OF RESULTS AND DISCUSSION

The table above shows the relationship between AUDINDP and FRQ of listed deposit money banks in Nigeria. The F-test has a probability value of 0.000047, which is statistically significant at 5% level. This shows that the model is statistically significant. It also depicts that AUDINDP has a significant impact on FRQ of listed deposit money banks in Nigeria.

The R-squared and adjusted R-squared statistics report values of 0.346922 (35%) and 0.265287 (27%). This indicates that the exogenous variables (AUDINDP, FSIZE) explained 27% of total changes in FRQ of listed deposit money banks in Nigeria. The Durbin-Watson statistic reports a value of 2.257122; which suggests that there is absence of serial autocorrelation in the model as the value is close to two.

Results from the parameter estimates show that AUDINDP has a negative (-4.152357) but significant (0.0010) relationship with FRQ of listed deposit money banks in Nigeria. This depicts that for every increase in the ratio of non-audit services by auditors, there would be a 4% decrease in FRQ of listed deposit money banks in Nigeria. This means that an increase in auditor's independence by reducing non-audit services would positively and significantly increase and FRQ of listed deposit money banks in Nigeria.

Furthermore, firm size (FSIZE) has a negative (-1.232217) but insignificant (0.4570) relationship with FRQ of listed deposit money banks in Nigeria. This depicts that for every increase in the size of the entity; there would be a 1% decrease in FRQ of listed deposit money banks in Nigeria.

VI. CONCLUSION AND RECOMMENDATIONS

This research inspected the influence of auditor's independence on quality of FR in listed DMB's in Nigeria. The paper established that AUDINDP does affect financial reporting quality. The study concludes that AUDINDP impacts financial reporting quality significantly.

VII. RECOMMENDATIONS

1. This research recommends that to promote the relevance of FR, management ought to employ professionally qualified accountants and auditors that have advanced audit skills; can adapt to the quickly evolving globalization environment as well as improvement in IT such as cloud computing. In addition, they must be up to date with any changes in the accounting and auditing field.
2. Faithful representation must always be considered because of its importance to the quality of FR as it significantly affects the views of auditor's autonomy and objectivity.
3. Therefore, it is suggested that there ought to be a replacement of auditors to increase the auditor's independence and also to further boost investor's confidence in the role of auditors so that they will

know that the audit was performed with utmost professionalism, due diligence as well as mutual respect.

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APPENDIX

Descriptive statistics

	FRQ	AUDINDP	FSIZE
Mean	7.597774	0.607300	12.04812
Median	3.745846	0.775000	12.10805
Maximum	112.4282	0.990000	12.74780
Minimum	-22.86442	0.000000	11.07960
Std. Dev.	17.39659	0.362438	0.397822
Skewness	3.519740	-0.855858	-0.336812
Kurtosis	18.66740	2.065097	2.240106
Jarque-Bera	1229.257	15.85006	4.296701
Probability	0.000000	0.000362	0.116676
Sum	759.7774	60.73000	1204.812
Sum Sq. Dev.	29961.49	13.00477	15.66795
Observations	100	100	100