Auditor Independence and Financial Integrity in Nigeria: An Analysis of Challenges and Implications

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ABSTRACT

The evolving business landscape, with complex corporate structures and global operations, poses challenges and threats to auditor independence, especially in Nigeria. Moreover, the persistent issues of financial and non-financial relationships, reliance on non-audit fees, tenure restrictions, regulatory compliance, technological advancements, and challenges occasioned by internal and external pressures, threaten financial reporting integrity. Stakeholders' expectations, ethical dilemmas, and globalization further complicate the landscape. Consequently, it is imperative to tackle the challenges associated with financial reporting, focusing on the role of auditor independence in augmenting transparency and confidence in financial information. This study sought to comprehensively examine auditor independence's conceptualization, maintenance, and impact on financial information reliability. Objectives include assessing dual aspects of unbiased and impartiality in scrutinizing financial records by auditors and analyzing legal implications surrounding their independence. Auditor independence ensures unbiased assessment, enhancing credibility, market stability, legal compliance, and risk mitigation. The exploratory study examined how auditor independence ensures the quality of financial reporting, utilizing secondary sources like books, journals, industry reports, and publications of regulatory and professional bodies. Achieving and maintaining independence demands, adherence to regulatory frameworks, transparent communication, professional skepticism, ethical decision-making, rotation policies, whistle-blower protection, and robust internal controls are pivotal. Reinforcing the importance of auditor independence, through stricter enforcement of audit regulations in Nigeria, will bring about trust and stakeholders' confidence in the financial reports. The world is evolving, and there is a need for a strong ethical framework by professional bodies, with vigilance, adaptation, and professional development on the part of auditors to uphold independence, while ensuring financial reporting credibility and reliability.

Keywords: Auditor, impartiality, independence, objectivity, trust

BACKGROUND OF THE STUDY

The word auditing originated from the Latin word 'audire' that means 'to hear', and this conveyed how the work of auditing was performed in ancient times. Auditing has gone through revolutionary changes from the initial hearing to computerized auditing systems. Adeniji (2021) posited that the word audit means an examination of an entity's financial reports and an expression of opinion that is done freely without any influence on the auditor appointed to carry out such an exercise following statutory provisions to that effect.

In Nigeria, auditor independence is essential to the integrity of financial reporting; yet, several incidents demonstrate the negative consequences that can arise when this independence is violated. In the Cadbury Nigeria Plc incident, for instance, auditors overlooked financial misstatements for years, which resulted in a financial disaster when the inflated earnings were exposed in 2006 (Siyanbola, 2021). Afribank Nigeria Plc also had serious consequences as auditors failed to notice significant internal flaws that led to the spread of fraudulent activity and the bank's license being revoked in 2011. Situations such as these highlight how auditors' financial dependence on clients, managerial power, and slack regulatory supervision can compromise audits, harming organizational stability and credibility with investors.

The dangers of unclear boundaries in Nigeria's audit environment, where intimate personal ties and a lack of effective deterrents can result in skewed audit results, are highlighted by other noteworthy cases like Liver Brothers Plc (now Unilever Nigeria Plc) where the company was said to have over-bloated its accounts (Siyanbola, 2021). Economic pressures and low compensation further aggravate these vulnerabilities because underpaid auditors might be reluctant to disclose information that could endanger client retention. Additional difficulties for auditors in politically sensitive companies include pressure from influential stakeholders to hide financial misstatements, as demonstrated by the audits of multiple Nigerian banks during the 2009 financial crisis. Preventing these problems and safeguarding the integrity of financial reporting requires strengthening Nigeria's regulatory frameworks, implementing sanctions, and encouraging a culture of ethical accountability.

The aim and purpose of carrying out an audit of the financial reports of an organization is to allow the auditor to make a judgment on the true and fair position of the financial affairs of the organization (Grigoras-Ichim et al., 2024). According to Mariyani (2024), the opinion of the external auditor brings credibility to the reports of the organization as the auditor follows audit guidelines and ensures that the disclosure of the management of the organization is accurate and represents the true position of the organization. The auditor’s performance must not be perceived as below expectation otherwise, the financial reports and auditor’s opinion together with his signature will neither be useful nor relevant for any decision-making.

The influence of auditors on the form of the financial statements published cannot be over-emphasized, as such reports represent the product of both the management and the auditors (Antle & Nalebuff, 1991). Bappa and Yahaya (2024) described independence as an unbiased position. In addition to perceiving auditors as being independent, they must also be seen to appear as such. The new International Standards on Auditing mandate auditors to exercise reasonable care and assurance in their duty to authenticate the fairness and truthfulness of a company’s financial reports (Iryani, 2017).

According to Voinea et al. (2022), the auditors’ role is very crucial in the sense that it ensures the degree of independence and objectivity of the financial reporting process. Therefore, to preserve the public trust and confidence in the accuracy of financial accounts, auditor independence is crucial. Any conflicts of interest that would impair their capacity to provide an objective assessment of the company's financial situation must be avoided by auditors. Guidelines to protect auditor independence are established by professional associations and regulatory agencies, such as the International Standards on Auditing (ISA) and the Sarbanes-Oxley Act (2002) (Iryani, 2017). This independence benefits investors, the financial market as a whole, and all other stakeholders by maintaining the transparency and reliability of financial information.

Auditors are guardians of financial transparency as they make sure that the financial data provided is accurate and trustworthy. Central to their effectiveness is the concept of independence, a cornerstone that underpins the trust stakeholders place in audit reports. Independent auditors are less likely to be influenced by personal or financial relationships with the company being audited. This impartiality allows them to objectively evaluate financial information, reducing the risk of overlooking or downplaying issues. Independence is said to exist when the conduct of the auditor impeccably maintains an attitude that is free from bias throughout the audit engagement process, while independence in appearance depicts being free from influence (Bappa & Yahaya, 2024).

Independence enables auditors to scrutinize financial records critically. They can challenge management assertions, increasing the likelihood of detecting errors, fraud, or irregularities. This scrutiny acts as a safeguard against possible attempts to manipulate financial information. Auditor independence builds trust among interested parties, such as creditors and investors, and the general public. When financial statements are audited by independent professionals, stakeholders are more likely to trust the information that is presented in an accurate and complete form (Dandeniya, 2024). According to Olowookere and Ogunleye (2021), a stakeholder's dissatisfaction might arise without the confidence that the auditors have done what they are expected to do in the course of carrying out audit engagement. Independence helps mitigate conflicts of interest that may arise if auditors have personal or financial ties with the company. This adds to the confidence that the stakeholders have in the information that is provided and this plays a major role in guiding them in the decision-making process as they are acting on information that is free from influence.

Independence is often a legal and regulatory requirement. Adhering to these standards not only ensures compliance but also reinforces the integrity of the auditing process. It sends a signal that the audit is conducted with a commitment to transparency and fairness. By preserving the accuracy of financial reporting, auditor independence helps maintain the financial markets' general stability. Investors can make informed decisions and market participants have confidence in the financial information as a result of its reliability, which invariably reduces the likelihood of market instability. In essence, auditor independence acts as a safeguard, protecting the integrity of financial reporting and promoting a system where stakeholders can trust that the information being offered is true and devoid of improper influence or manipulation.

Objective of the Study

The study's main objective is to comprehensively explore the conceptualization, maintenance, and impact that auditor independence will have on financial information particularly its reliability and integrity in the procedure for financial reporting in Nigeria. Other objectives are to assess the dual aspects of auditor independence, considering its existence in both fact and appearance and their respective implications. It also investigates the function and importance of auditor independence in scrutinizing financial records and evaluating its influence on the detection of errors, fraud, or irregularities in financial reporting. Moreover, this study sought to analyze the legal and regulatory landscape surrounding auditor independence, exploring the extent of adherence to these standards and its implications for the auditing process.

LITERATURE REVIEW

Conceptual Framework

Auditor Independence

Maintaining the integrity and reliability of the financial reporting process depends on auditor independence, one of the core concepts in the field of auditing. Auditor independence refers to auditors being impartial but having autonomy in carrying out their duties (Utami, 2024). The independence of auditors is essential in order to enable auditors to assess the financial reports with objectivity and make their reports on financial statements of an organization without any form of external influence or in the absence of self-conflicting interests. The objective is to instill confidence in the stakeholders regarding the authenticity and correctness of the financial data generated by the audited organization (Sangkala, 2024).

The principal-agent relationship, in which the auditor functions as an independent agent tasked with providing assurance on the financial reports issued by the organization's management, is the foundation upon which the notion of auditor independence is based (Leung et al., 2024). The assurance function depends on the auditors' capacity for professional skepticism and objectivity in the critical evaluation of financial data. According to Hecke (2020), independence serves as a protective measure against possible conflicts of interest that can jeopardize the auditor's capacity to operate in the public interest. The role that auditor independence plays in promoting accountability, openness, and confidence in the data supplied to the financial markets stabilizes the market.

The assurance profession, guided by regulatory frameworks and professional standards, continuously evolves to address emerging challenges to auditor independence. Striking the right balance between fostering close relationships with clients for a deep understanding of their operations and maintaining the necessary distance to ensure objectivity is an ongoing challenge. As markets and business environments change, ensuring and enhancing auditor independence remains a dynamic and critical aspect of the auditing profession, contributing to the reliability and credibility of financial reporting worldwide.

Financial Reporting Process

The financial reporting process depends heavily on auditor independence to maintain the credibility and transparency of an organization's financial information (Sangkala, 2024). Conceptually, auditor independence is the ability of auditors to carry out their duties impartially, free from conflicts of interest, thereby ensuring that financial statements offer a true and fair view of an entity's position (Hecke, 2020). However, in practice, independence can be compromised by economic and relational pressures, especially in Nigeria where client dependency and personal relationships may impact auditors' judgments. This lack of independence risks impairing the integrity of financial reporting, as influenced audits can misinform stakeholders and weaken trust in financial disclosures.

Regulatory Frameworks

Numerous regulatory bodies and standards are in place globally to uphold and enforce auditor independence. The Sarbanes-Oxley Act of 2002 in the United States and the International Standards on Auditing (ISA) globally are examples of frameworks designed to reinforce auditor independence. These regulations prescribe guidelines regarding financial relationships, employment, and other associations that could compromise an auditor's objectivity. Among the boards that ensure standards in the audit industry are:

International Auditing and Assurance Standards Board: The international standards on auditing (ISAs) have been developed and issued by the International Auditing and Assurance Standards Board (IAASB). The IAASB issued its first set of ISAs with the initial release in 1994. Since then, the standards have been periodically updated. ISAs issued by IAASB, are to ensure consistency and quality in audit practices. A compliance audit's purview is dynamic and ever-evolving. Furthermore, the scope of a compliance audit has expanded due to periodic regulatory statements and advisories issued by the International Federation of Accountants (IFAC) and the International Accounting Standards (IAS) Committee (Thottoli & Ahmed, 2022).

International Accounting Standards Board (IASB)**:** International Financial Reporting Standards (IFRS), which are widely used in the compilation of financial accounts, are issued by the IASB, an international accounting authority.

Financial Reporting Council of Nigeria (FRCN): In Nigeria, the FRCN is a significant regulatory organization that manages corporate governance and financial reporting. It is in charge of establishing auditing and accounting standards as well as ensuring compliance. Established by the Financial Reporting Council of Nigeria Act No. 6 of 2011, the FRCN underwent an update in 2022.

The FRCN issued the Nigerian Financial Reporting Standards (NFRS) to be applicable for reporting periods beginning on or after January 1, 2012. The NFRS represents the adoption of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) for financial reporting in Nigeria. These standards also include guidelines for auditors. Auditors in Nigeria often adhere to international standards, particularly the International Standards on Auditing **(**ISA) issued by the International Auditing and Assurance Standards Board (IAASB), to guarantee the quality and uniformity of audit practices.

Companies and Allied Matters Act (CAMA): CAMA provides the legal framework for the registration and regulation of companies in Nigeria. It contains provisions related to auditing, financial reporting, and corporate governance. The Companies and Allied Matters Act (CAMA) in Nigeria was initially enacted in 1990. However, in 2020, the Nigerian government introduced significant amendments to CAMA.

Institute of Chartered Accountants of Nigeria (ICAN) and Association of National Accountants of Nigeria (ANAN): These institutions perform an important role in regulating audit practice. The bodies set ethical standards and provide training and certification for auditors in Nigeria. The ICAN was established in 1965 while ANAN was established in 1979 but incorporated in 1983 (Olagunju & Owolabi, 2021) and became chartered by Decree 76 of 1993.

Securities and Exchange Commission (SEC): In Nigeria, the securities business is governed by the SEC. While its primary focus is on the capital market, it also ensures that financial disclosures satisfy certain standards.

Central Bank of Nigeria (CBN): Nigeria's Central Bank (CBN) is the governing body for all banks and other financial institutions in Nigeria. The CBN has specific regulations related to auditing and financial reporting, guiding every bank and other financial organization doing business in Nigeria.

Theoretical Literature Review

Several theories underpin the concept of auditor independence, providing a theoretical foundation for understanding its importance and implications.

Agency Theory (Principal-Agent Relationship)

This theory addresses the inherent conflicts of interest that arise in relationships wherein one party, referred to as the principal, assigns work to another, referred to as the agent. Within the framework of auditing, shareholders are the principals and they hire auditors, the agents to verify financial information prepared by another agent of the principal which is the management. Management is saddled with the responsibility of running the affairs of the companies on behalf of the principals (the shareholders). Maintaining independence becomes crucial in mitigating the conflict between the interests of the agents and those of the principals to ensure accurate financial reporting. Agency theory shows that agents are always having more information than the principals. This information asymmetry negatively affects the principals in that, it is difficult for the latter to monitor the former whether or not the agents are serving the principals' interests (Yan & Hyman, 2024).

Millichamp and Taylor (2008) believed that agents are always after their interests rather than the interests of the principals. However, the principals attach compensation to the performance of the agents to prevent them from enriching themselves at the expense of the principals. Principals also use auditors to examine the work of the agents to certify that financial information provided by the agents is credible and truthful to give assurance and confidence to stakeholders (Edwards et al., 2005).

Stakeholder Theory

This theory states that a business should serve the interests of its various stakeholders, not just the shareholders (Freeman, 1984). Auditors, as guardians of financial information, must consider the broader stakeholder community, including employees, creditors, suppliers, customers, government, and the public. Independence is essential to provide a fair and unbiased assessment that benefits all stakeholders.

Social Contract Theory

The social contract theory states that organizations operate within a framework of implicit agreements with society. Auditors, as key participants in the financial reporting process, are expected to fulfill their role in a manner that aligns with societal expectations. Independence is an important element of this contract, ensuring auditors prioritize the public interest over individual or corporate interests.

Social contract theory believes that those who have interests should be allowed to take part in the activities of the firm by delegating the authority to the managers who act on behalf of the firm, especially on social contacts.

Social contracts explain the way authorities are delegated at both political and organizational levels (Renzo & Green, 2003).

Institutional Theory

Institutional theory emphasizes the impact of external forces, such as laws and regulations, on organizational conduct. In the context of auditor independence, regulatory frameworks like the Sarbanes-Oxley Act (2002 and international auditing standards shape the institutional environment. Adherence to these regulations becomes a key factor in maintaining independence. It was discovered empirically that professionalization of internal audits has greater effects on the effectiveness of internal audits. This is because, corporate governance improved when internal audit functions complied with the set standards due to professional certification of internal auditors (Vadasi et al., 2020).

Ethical Decision-Making Theories

Various ethical theories, such as deontology, consequentialism, and virtue ethics, provide a foundation for understanding the ethical considerations in maintaining auditor independence. Ethical decision-making frameworks guide auditors in navigating complex situations, ensuring they act according to moral principles. Johari et al. (2021) suggested that the conflict between the personal auditors' interests and their orientation is resolved by the degree of morality exhibited in making ethical decisions.

Signalling Theory

Signaling theory suggests that actions and behaviors convey information about an individual or entity. In the context of auditing, an auditor's independence signals credibility and reliability to stakeholders. Maintaining independence becomes an important signal which enhances the perceived accuracy of financial information. Stiglitz and Kosenko (2024) indicated that when certain information is known to selected people but unknown to others, those who do not have access to such privileged information could have taken different actions had it been that they had access to the information; such a situation is described as information asymmetry. Understanding these theoretical perspectives is essential for appreciating the multifaceted nature of auditor independence. These theories collectively contribute to shaping the principles, regulations, and professional standards that govern auditors' conduct and reinforce their role as unbiased assessors of financial information.

Empirical Review

Several studies collectively contribute to our understanding of auditor independence by examining its antecedents, consequences, and influencing factors across various industries and regulatory environments. Their distinct findings provide a foundation for ongoing discussions in academia, practice, and policy-making aimed at ensuring the continued effectiveness of auditor independence in safeguarding the trustworthiness and integrity of financial data.

Tepalagul and Lin (2015) conducted a thorough analysis of scholarly research on the independence of auditors and audit quality between 1976 and 2013. It examined the results of financial report quality and audit quality, as well as incentives, perceptions, and behaviors. The four primary challenges to auditor independence were identified by the study as customer importance, non-audit services, auditor tenure, and client affiliation with audit companies. It was determined that the evidence supporting the claim that auditor independence is jeopardized by perceived non-audit fees and client importance is weak. The data about real audit quality indicated that; contrary to what financial statement users generally believe, non-audit services do not compromise auditor independence; in particular, audit quality is enhanced by tax-related non-audit costs.

The majority of research found that auditor independence is unaffected by a lengthy term. Some research indicated that longer tenure improves audit quality, while shorter tenure is linked to worse audit quality. There is conflicting data in the few research that have looked into the client affiliation threat. According to the analysis, SOX 2002 has improved financial reporting and audit quality.

The impact of several factors on auditor independence in Vietnamese auditing firms was investigated by Nguyen & Dao (2022). As part of a survey research approach, a questionnaire was given to chief accountants of corporations, audit assistants, directors of auditing companies, and practicing auditors. The study's conclusions showed a positive correlation between the auditors' independence in Vietnamese auditing firms and the audit firm's environment, the auditors' individual qualities, and the institution.

Khalaf & Hamad (2023) conducted an exploratory and analytical study on audit techniques and methods. The study concluded that green auditing was necessary, describing it as a systematic process to objectively obtain evidence of the company's performance and evaluation. What they understood to be a green audit is a collection of independent, systematic activities that are followed to obtain audit evidence that is evaluated objectively to ensure compliance with laws, regulations, and standards about environmental activities; thus stressing the significance of auditor independence.

In a study on the processes for selecting and enhancing auditor independence, Shbeilat (2024) called for mandatory auditor rotation in order to reduce the risk of familiarity. The audit committee of an entity should take the appropriate precautions to avoid familiarity risks and make sure that the duration of the engagement period does not compromise the independence of the auditors. To improve the performance and independence of the auditor, the study recommended that businesses give close consideration to the auditor nomination process.

Masyitah (2023) examined 27 publications on auditor independence that were published in international journals that were indexed by Scopus which included data from 2002 to 2022. The study's findings demonstrated that the audit committee is the primary element that can support auditor independence It was believed that the main problem that could jeopardize auditor independence is the client's financial interests or business relationships and that mandatory rotation does not offer any evidence to support that view. According to the study, it hasn't been reliably demonstrated that non-audit services, which are thought to undermine auditor independence have not been consistently proven to be able to influence auditor independence.

METHODOLOGY

This study used an exploratory research method in investigating the complex and multifaceted dimensions of independence of auditors. Given the dynamic nature of the auditing field and the evolving difficulties it faces, an exploratory approach is deemed most suitable to uncover insights and identify patterns. The study made use of information from secondary sources among which are the rules and professional standards established by reputable organizations like the FRCN and the IAASB. The examination of documents of these organizations enabled the study to establish a foundational understanding of the principles and expectations governing auditor independence.

Other sources are academic journals and articles which served as pivotal sources, providing insights from peer-reviewed research papers in accounting, auditing, and business ethics. Furthermore, industry-specific reports and publications were consulted to grasp sector-specific differences. Information gleaned from auditing firms, industry associations, and regulatory bodies informed the study of emerging trends, challenges, and standard practices in maintaining auditor independence within various sectors. Governmental and regulatory reports were scrutinized to gain insights into recent regulatory changes, developments, and enforcement activities related to auditor independence. The study consulted books and monographs written by experts in auditing, accounting ethics, and corporate governance. This exploration offered a broader historical perspective on the evolution of auditor independence concepts and practices.

AUDITOR INDEPENDENCE IN PRACTICE

The Significance of Auditor Independence

Maintaining the integrity of financial reporting is the foundation for the significance of auditor independence. This is a fundamental principle enabling auditors to assess a company's financial statements objectively without bias. The absence of conflicts of interest allows auditors to come up with an opinion that is impartial, and that is genuinely the true position of the financial performance of an entity. The significance of auditor independence can be categorized as follows:

Objectivity and Impartiality: Independence guarantees that auditors are free from financial or personal interests to evaluate financial data objectively. This impartiality is essential for providing reliable and unbiased audit opinions. According to Aslan (2021), public trust is protected by the audit profession and public accounting firms. The public accounting profession has been impartial in giving free judgment on the company's management of the information that it provides in the financial reports.

Credibility and Trust: Financial statements are more credible when they are audited independently. To make wise judgments, stakeholders, including creditors and investors, rely on audited reports. Credibility is an issue for all stakeholders, as corporate sustainability reporting is important to businesses and their external stakeholders (Bini & Bellucci, 2020). Trust in the accuracy of financial information may be damaged if auditors lack independence. Although company sustainability reporting is becoming a considered business norm, there are constant issues with sustainability disclosures' reliability (Boiral et al., 2019). It is now generally acknowledged that the reliability of the source can be used to assess the credibility of reports (Liu et al., 2011).

Financial Market Stability: The integrity of financial reporting is a prerequisite for both investor confidence and market stability. By ensuring that there are no major misstatements in a company's financial statements, independent audits support the integrity of the financial system. Trust and confidence in the market are enhanced by independent audits (Akther & Xu, 2021).

Legal and Regulatory Compliance: Regulations requiring auditor independence are in place in many jurisdictions to preserve the integrity of financial reporting. Establishing standards and offering guidance on the goal and overarching principles driving the auditing of financial statements is the aim of ISA (Iwanowicz & Iwanowicz, 2019). As a result, noncompliance may result in fines and auditor sanctions, among other legal repercussions.

Risk Mitigation: Independence acts as a safeguard against conflicts of interest. Auditors who have particular interests in a company or who have personal relationships with the management of the company are likely to overlook or downplay issues which increases the risk of financial mismanagement being ignored. Auditors are expected to carry out a risk assessment in order to detect operational or strategic events within the scope of engagement, this will allow them to determine the possible occurrence of risks and the impact such risks can have on the firm (Coetzee & Lubbe, 2014).

Audit Quality: Independence is essential to conducting thorough and comprehensive audits. There is a need for auditors to challenge management's contentions and critically assess financial records to discover potential irregularities. Independence supports a rigorous and effective audit process. Al-Karawi and Ghodrati (2024) suggested that the quality of the audit is described as the possibility of the auditor exposing any violation and thereby reporting such violation. If the auditor doesn't remain independent, there is the likelihood that irregularities could be overlooked and not reported, and this will impair the quality of the audit. Auditor independence is therefore a cornerstone of financial reporting and assurance processes. It safeguards the interests of stakeholders, maintains the reliability and quality of financial information, and helps keep the financial markets stable.

Challenges and Threats to Auditor Independence

Despite stringent regulations, challenges and threats to auditor independence persist. The evolving business landscape, with complex corporate structures and global operations, poses new challenges and threats. Maintaining independence becomes more complex as auditors navigate intricate financial instruments, digital advancements, and the interconnection of global markets.

Financial Relationships

To ensure independence, auditors are restricted from engaging themselves in any financial relationships translating into financial interests with their clients aside from that of audit engagements. Such financial interests include ownership interests, loans, or other financial dealings that might create a conflict of interest. The idea is to prevent situations where an auditor's personal or financial connections could influence their judgment or compromise their impartiality. Auditors who offer non-audit financial services are susceptible to risking their right to independence in exchange for greater financial gains from non-audit services. It is presumed that auditors could sacrifice their independence for higher financial gains from being retained by the clients (Patel, 2024).

Non-Financial Relationships

Financial ties are not the only thing that defines independence. Auditors are also expected to avoid non-financial relationships that could impair their independence (Patel, 2024). For instance, close personal relationships with key executives of the client organization may raise concerns about objectivity. The goal is to maintain a professional distance that allows auditors to make impartial assessments and judgments.

Non-Audit Fees

The reliance of audit firms on non-audit fees from their clients introduces another layer of complexity. If non-audit fees constitute a significant percentage of an audit company's earnings from a particular client, there is a risk that the firm might be hesitant to jeopardize those fees by adopting a stringent stance during the audit (Patel, 2024).

Rotation and Tenure

To mitigate the risk of familiarity and complacency, regulatory bodies often impose restrictions on the length of time auditors can serve a particular client. Audit companies' or lead partners' mandatory rotation following a specified tenure is one approach to prevent long-term associations that might compromise independence. It is recommended by the FRCN Code of Corporate Governance that corporations rotate their external auditors every ten years.

Internal Pressure within the Audit Firm

Internally, audit firms may face pressures to meet revenue targets, especially in highly competitive environments (Sulieman et al., 2024). The emphasis on financial performance and profitability within the audit firm can inadvertently influence the decisions and judgments made by auditors. The implications are the risk of prioritizing financial interests over audit quality and possible compromise in independence due to internal financial pressures.

The size of the Audit Firm

The size and concentration of the audit firm may also impact auditor independence. In cases where audit firms are highly concentrated in a particular industry or geographic region, there may be concerns about their ability to provide independent judgment, especially when the firm's financial interests are heavily tied to a specific sector. The implications are the risk of industry or regional biases affecting audit judgment and the challenges in maintaining independence when the audit firm's financial success is closely linked to specific clients or sectors (Al-Qadasi, 2023).

Jeppeson (1998) suggested that big audit firms that have long-term audit engagement relationships with their clients which enables them to be familiar with the client's management systems and structures are mostly at the risk of compromising their autonomy. Regulated by comprehensive frameworks, auditors are entrusted with the responsibility of offering an unbiased evaluation of a company's financial health. Upholding independence is not only a legal and professional obligation but a vital contribution to sustaining the credibility and trust that form the bedrock of financial markets. As the business landscape evolves, ensuring and strengthening auditor independence remains a dynamic and ongoing challenge.

Regulatory Compliance and Oversight

While regulations are in place to ensure auditor independence, the effectiveness of regulatory oversight varies. Inadequate enforcement or slack regulatory scrutiny may create an environment where auditors feel less obliged to uphold independence standards rigorously. The implications are that there are impaired deterrents against compromising independence and reduced effectiveness of regulatory measures in upholding public trust in financial reporting.

Consequences of Independence Violations

The consequences of compromising auditor independence are far-reaching. Not only can it lead to legal repercussions, damage the reputation of the auditing firm, and result in regulatory sanctions, but it can also erode investor trust in financial markets. Recent corporate scandals underscore the importance of maintaining independence to prevent financial mismanagement and fraud. The breach of ethical standards affects audit engagement and may result in the inability of auditors to accomplish their ethical responsibilities in executing engagement tasks correctly and in obtaining proper evidence to back up an audit judgment (Dharmasiri et al., 2021)

Emerging Issues in Auditing

Technological Challenges

The advent of advanced technologies introduces both opportunities and challenges to auditor independence. As companies embrace complex data analytics, artificial intelligence, and blockchain, auditors must adapt to precisely evaluate the effect on financial reporting. Balancing the need for technical expertise with the imperative of independence is an ongoing concern in the auditing profession.

Auditor Skepticism and Professional Judgment

Professional skepticism is a basic attitude in auditing characterized by a questioning and critical mindset. Auditors adopting a professional skepticism approach audit evidence with a proactive and inquisitive stance, avoiding unwarranted assumptions and suspension of judgment until sufficient, credible evidence is obtained (Ameen & Wahhab, 2024). The principles of professional skepticism include maintaining objectivity, recognizing the potential for fraud, and ensuring that audit evidence is both sufficient and relevant.

Professional skepticism is necessary to improve the auditors' capacity to identify material misstatements and maintain independence. According to IFAC, independence in appearance is the act of avoiding situations or conditions that will make a right-thinking person who possesses important information, logically affirm that the audit firm's or any member of the assurance team's objectivity, integrity, or professional skepticism had been jeopardized (Fearnley et al., 2005).

Professional judgment in auditing refers to the application of knowledge, experience, and ethical considerations to make informed decisions in situations of complexity or ambiguity. Auditors exercise

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professional judgment when evaluating audit evidence, assessing materiality, and arriving at conclusions about the fairness of financial statements. This involves weighing the available evidence, considering ethical principles, and ensuring consistency with professional standards. Professional judgment is a dynamic process integral to the entire audit, guiding auditors in making sound decisions that align with their expertise, ethical principles, and established norms (Deliu, 2020). It complements professional skepticism, contributing to the overall effectiveness of the examination procedure.

Maintaining independence requires auditors to approach their work with skepticism and exercise professional judgment. Finding the ideal equilibrium between trust in the client's information and a healthy dose of skepticism is a delicate art. Auditors must traverse the fine line between collaboration with clients and maintaining an independent perspective, especially when faced with intricate financial transactions and estimates.

Globalization and Cross-Border Audits

In an era of globalization, where companies operate across borders, auditors face the challenge of harmonizing diverse regulatory environments. Cross-border audits demand a keen understanding of local regulations, cultural differences, and business practices. Balancing global consistency in auditing standards with the need to adapt to specific regional requirements is an ongoing dialogue within the profession (Pratama, (2023). According to (Kleinman et al., 2014), efforts to standardize financial accounting across the board have been spurred by the globalization of industry. This standard is known as IFRS. The rising importance of assisting in ensuring the quality of audit functions being carried out at different places across the globe is indicated by the globalization of audit practice.

Auditor Reporting and Communication

The shift towards more transparent and informative auditor reporting aims to enhance communication between auditors and stakeholders. However, this evolution also brings forth questions about how much information is too much. Striking the right balance between providing meaningful insights and avoiding information overload is a challenge as auditors aim to fulfill their duty of communicating relevant matters without compromising independence. According to Shiue et al. (2022), face-to-face interactions between auditors and staff members of the company being audited inevitably lead to the emergence of informal networks, alliances, and friendships, as well as informal channels of communication and other complex webs of relationships during an audit.

Ethical Dilemmas and Whistle-blower Protection

Ethical dilemmas are a great threat to the independence of auditors. The pressure to maintain client relationships, coupled with the responsibility to report irregularities, can create conflicts. Protecting whistle-blowers who raise concerns about potential independence violations becomes crucial in fostering a culture where ethical concerns can be addressed without fear of retaliation. A whistle-blower can improve global recognition assuring global transparency and integrity; this recognition is an important contribution of the parties in the organization about the illegal action, particularly in complex and different situations (Dworkin, 2006).

Continuing Professional Development

The dynamic nature of businesses requires all auditors to see learning as a continuous process and embrace the act of developing themselves both academically and professionally. Auditors should update themselves on emerging accounting standards, industry trends, and technological advancement as this is imperative for them to maintain their independence effectively. Professional development programmes play a crucial role in equipping auditors with the skills and knowledge needed to traverse evolving landscapes (Kaspina, 2015).

Public Perception and Trust

Public trust in the financial markets is closely tied to auditors' perceived independence. Any erosion of trust due to perceived or actual lapses in independence can have cascading effects on market confidence (Dachevski, & Ackers, 2023). As auditors grapple with complex scenarios, they must be proactive in communicating their commitment to independence and ethical practices to the public. The independence of auditors in reality is perceived as very crucial in determining the degree of confidence that the public has in financial reports (Dart, 2011).

Achieving Auditor's Independence in the Face of Stakeholders

Achieving and maintaining auditor independence in the face of stakeholders involves a combination of regulatory compliance, professional ethics, and proactive measures.

Adherence to Regulatory Frameworks

It is mandatory for auditors to comply with established regulatory frameworks such as the Sarbanes - Oxley Act (2002 in the United States) or the International Standards on Auditing (ISA) globally and must also comply with all regulations guiding audit and assurance in Nigeria. These frameworks outline specific guidelines and restrictions to ensure independence, covering areas like financial relationships, employment and tenure. Auditors must recognize regulations regarding disclosures of law violations and issues relating to regulatory and financial reporting non-compliance to relevant authorities without being bound by the fundamental ethical principle of confidentiality (Rathnasamy & Mahabeer, 2021).

Transparent Communication

Open and transparent communication with stakeholders is crucial. Auditors should clearly articulate their roles, responsibilities, and the importance of independence in their audit process (Aluvala, 2024). This helps manage expectations and reinforces the commitment to unbiased reporting.

Professional Skepticism

Demonstrating professional skepticism is important for auditors. This entails keeping an inquiring mindset, evaluating the evidence critically, and not taking information at face value (Husnah et al., 2024). By approaching the audit process with a healthy degree of skepticism, auditors can reinforce their commitment to independence.

Rotation Policies

Implementing rotation policies for audit partners and key team members can help mitigate familiarity threats. Mandatory rotation ensures that auditors do not become too comfortable with a client, reducing the risk of compromising independence due to long-term relationships (Bappa &Yahaya, 2024).

Ethical Decision-Making

Auditors should adhere to ethical decision-making frameworks, considering the principles of objectivity, due care, professionalism, and integrity (Nguyen, 2023). Ethical behavior builds trust with stakeholders and reinforces the auditor's commitment to independent and unbiased reporting.

Continuous Professional Development

Staying abreast of industry developments, changes in accounting standards, and emerging technologies through continuous professional development is crucial. This ensures that auditors are equipped with the knowledge and skills necessary to traverse complex scenarios while maintaining independence.

Whistle-blower Protection Programs

Establishing whistle-blower protection programmes within audit firms encourages employees to report concerns related to potential independence violations. Protecting individuals who raise ethical issues fosters a culture where independence is valued and potential threats are addressed promptly.

Robust Internal Controls

Implementing robust internal control systems within audit firms will help in monitoring and enforcing compliance with independence requirements (Ilori et al., 2024). Internal policies and procedures should be designed in such a way that will be easy to identify possible threats to independence and proactively prevent such threats.

Education and Training

Conducting regular training sessions for audit professionals on independence issues, ethical considerations, and recent regulatory changes is vital. Education ensures that all team members are aware of their responsibilities and the importance of maintaining independence.

Stakeholders' Engagement

Actively engaging in communication with stakeholders and addressing their concerns enhances transparency (Limani et al., 2024). Auditors should be available to answer questions, provide clarification, and demonstrate a commitment to delivering reliable and unbiased audit reports. Integrating strategies of this kind into their practices will enable auditors to navigate the challenges posed by stakeholders while availing them of the opportunity to uphold their independence. In addition to guaranteeing adherence to legal standards, this helps to increase confidence in the audit process.

CONCLUSION

Nigeria's auditing environment faced challenges in the last two decades concerning auditor independence, primarily resulting from financial reliance on clients, pressure from management, weak regulatory oversight, and economic challenges, all of which compromised the trustworthiness and accuracy of financial reports, thereby resulting in many corporate failures. The landscape of auditor independence is continually evolving, shaped by technological advancements, globalization, and changing expectations. Auditors must remain vigilant in adapting to these shifts, embracing ongoing professional development, and addressing emerging challenges to uphold their function as unbiased protectors of financial integrity. As the profession goes through this complex terrain, maintaining and enhancing auditor independence will remain a central theme in making financial reports reliable and credible.

Nigerian regulatory and professional bodies need to enforce stricter oversight of audit policies and practices such as restricting auditors' non-audit service activities with clients, establishing stronger control of audit procedures, and imposing severe penalties for infractions in order to attain true auditor independence. In addition, it will be crucial to develop a strong ethical framework that prioritizes responsibility and transparency. Nigeria needs to also increase public trust in its financial reporting process and guarantee that auditors carry out their responsibility of preserving financial integrity by giving priority to these measures. Ensuring financial integrity in Nigeria is therefore critical to building investor trust, encouraging long-term economic expansion, and strengthening the legitimacy of the financial reporting system to fortify the foundation for a more credible and accountable business environment.

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