Auditors' Independence in the Context of National Transformation and Sustainable Economic Growth in Nigeria

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ABSTRACT

In the context of the recent financial crisis and the increasing number of financial scandals in the country, a series of questions regarding the position of professional accountants need to be clarified in order to comprehend the ways and manners in which auditors discharge their professional obligations. This paper examines the global perception about the auditors' independence with the aim of improving the quality of audit practice in Nigeria for the actualization of national transformation and sustainable economic growth and development. Data are collected through primary and secondary sources to assess the factors influencing the independence of audit using descriptive statistics. The research reveals that rendering of non-audit services by auditors, among other factors, poses serious threat to auditors' independence. It is therefore recommended that, relevant laws should be strengthened to enforce prohibition of execution of lucrative consulting contracts by statutory auditors.

Keywords: Financial Scandal, Professional Accountants, Professional Obligations, Auditors' Independence, National Transformation, Public Sector

Introduction

The continued distortion of economic and social development in Nigeria through various financial scandals and corrupt practices called for the emergence of the transformation of the economy. Nigeria is naturally endowed with resources required for the economic growth and development (Salau, Dodo and Aladesunkanmi, 2012). The UNDP Human Development Report (2009) also agrees that Nigeria is blessed with human and natural resources. However, these resources are under-utilized. According to Osisiona (2013), corruption distorts the values and norms of every society, inhibits the performance of public and private sector organizations and constrains the optimal use of resources. However, Tophoff (2013) opines that effective governance in the public sector leads to better decision making and the efficient use of resources, and strengthens accountability for the stewardship of those resources. Considering the various financial scandals in the country, there is greater need to affirm the position of statutory auditors as to whether their independence is being compromised in the course of discharging their professional responsibilities.

From the above, it can be deduced that a corrupt-free society, effective and efficient governance in the public sector are required to have a sustainable economic environment, which is a necessity for economic growth and development. Osisioma (2013) posits that a sustainable economic environment is one that should herald the transformation of the economy, re-invent the politics of our nation, secure the polity, care for the under-privileged and provide responsible, responsive and transformative leadership. Although professionals are said to be conniving with public officials to defraud the nation (Salau *et al.,* 2012 and Osisioma, 2013), however, the role of professional accountants cannot be undermined in the economic sustenance and transformation of Nigerian economy. According to Akhidime in Akhidime (2013), the role of accountants and auditors in Nigeria can be evaluated by the extent to which they fulfill their expected statutory duties and responsibilities as imposed on them by not only the statute and the professional bodies they belong, but also the expectations of the larger society consisting of public and private users of the financial information generated and attested to by the auditors.

It is in the light of the above that this paper attempts to examine the global perception about the auditors' independence since auditor's independence has been identified as a necessary condition for effective auditing (Callaghan, Parkash and Singhal, 2009). The objective of the paper is to evaluate those factors affecting auditors' independence with the aim of suggesting possible solutions to improve the quality of audit practice in the public sector for the actualization of national transformation and sustainable economic growth and development.

Review of Related Literature

Auditing and Its Objective

Auditing is defined as a systematic and independent examination of data, statements, records, operations and performances (financial or otherwise) of an enterprise for a stated purpose. In any auditing, the auditor perceives and recognizes the propositions before him for examining, collecting evidence, evaluating the same and on this basis formulating his judgment which is communicated through his audit report (Wikipedia, Encyclopedia). In Boynton and Johnson (2006), auditing is defined as the systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions established and established criteria and communicating the results to interested users.

In public enterprises, public officials are custodians of the nation's commonwealth. They are entrusted with the nation's treasury; the same way directors and mangers are entrusted with custody of shareholders' funds in limited liability companies. A stewardship report is required to be given to the owners of those resources. However, to strengthen the accountability for the stewardship of those resources and given credence to the financial statements, auditors are expected to investigate all relevant data and evidence that will form bases of their opinions as to whether the financial statements show true and fair pictures of the enterprises. Millichamp and Taylor (2008) attest to the fact that the primary objective of audit is to provide a report by the auditors of their opinions of the truth and fairness of financial statements so that any person reading and using can have belief in them. Other secondary objectives arisen from the performance of the primary objective include disclosure of weaknesses in the accounting system, detection and prevention of errors and frauds. Meanwhile, in order to achieve these objectives, auditors must possess the following qualities: independence, competence and integrity (Millichamp and Taylor, 2008).

Auditors' Role in Nation Building

According to Gambari (2008), some people refer to Nigeria as 'Giant of Africa' probably because of the size of its population and oil wealth. However, in the reality, greatness of a nation has to be earned and is not determined just by the size of its population or the abundance of its resources. Factors such as skills, industriousness, productivity and competitiveness are identified as the determinants of national greatness. In this light, it can be established that Nigeria is yet to develop economically in spite of its abundant resources, both natural and human. Efforts should be channeled towards managing and transforming these resources into optimum productivity. In ensuring this, corruption, one of the key factors constraining the optimal use of resources, needs to be controlled.

In the above regards, auditing as a profession that fosters public integrity plays a vital role. In a very legitimate sense, corruption auditing should be a concern of government auditors or public sector internal auditors (Muhammad, 2006). Through corruption auditing, auditors can disclose weaknesses in the internal controls as potential sources of corruption.

Muhammad (2006) identifies auditors' role in corruption auditing under different situations as discussed below:

- In a situation where there is lack of documentary evidence, auditors should point out opportunities for corruption.

- Also, where there is collusion between contractors and public functionaries, auditors should resort to participative auditing. Participatory auditing is a system of auditing whereby auditors move from the traditional approach of limiting investigation to information obtainable within an organization from its records into the innovative technique. It is a technique that allows involvement of clients or general public in ascertaining the adequacy of public services funded from the public budgets. This can be achieved through general public surveys or household surveys. The auditors may decide to conduct a survey of the clients or general public for assessing the economy, efficiency and effectiveness of service delivery by public agencies.

- More so, in a situation of collusion between citizens and public functionaries, corruption can be handled though investigation into the wealth and financial state of government officials. However, auditors should co-operate with investigators in the investigation of corruption.

- Furthermore, where there is discretionary power of public functionary, auditors should insist on public disclosure of guidance for the use of discretion.

- Finally, through performance auditing, areas of diseconomy, ineffectiveness and inefficiency can be discovered.

It is worthy of mentioning that, above roles can only be played if auditor's independence is not compromised.

Auditors' Independence

The concept of independence is central to the field of auditing theory and practice. It is about state of mind and intellectual honesty. Avila and Jaques (2013) describes independence as the absence of interest or influence that may be detrimental to the auditor's objectivity. Independence is the most important defining characteristic of the public accounting profession (Xu and Wang, 2008). Auditor is a professional accountant expected to provide an objective and independent opinion regarding the financial situation of a body audited. Ayvas and Pehlivanli (2010) agree that objectivity or independence of mind is essential for the exercise of professional judgment. According to Aderibigbe (2005), independence is an emotive word serving as a banner for freedom, integrity and all that is good. In other words, Hayes, Dassen, Schilder and Wallage (2005) describes independence as a position needed to take an unbiased viewpoint in the performance of audit tests, analysis of results and attestation in the audit report. Lack of auditor's independence is a main cause of corporate scandals across the world (Avila and Jaques, 2013). Considering the above, it can be established that for auditing to function as a profession that fosters public integrity and promotes economic transformation, auditors must be objective, unbiased and impartial with respect to financial statements and other information that forms the bases of their professional opinions.

According to Dykxhoom and Sinning in Avila and Jaques (2013), Independence is divided into two segments: Namely, Independence in fact (Practitioner independence) and Independence in appearance (Perceived independence).

Practitioner independence is the real independence of the individual practitioner in the performance of his work. It deals with the ability of the individual auditor to maintain a proper frame of mind or attitude in the face of all distractions and interferences designed to colour his objectivity in the course of discharging his duties. To sustain this state of mind, auditor must understand the following three dimensions of practitioner independence:

- **Programming Independence:** This is resistance of auditor to any form of interferences from the client's management as he plans out his audit work. Auditor should disallow the board or management from restriction, specification or modification of his chosen procedures.

- **Investigative and Verification Independence:** This is accessibility to books, records, correspondences and other evidence. Auditor must seek and obtain full co-operation of his client's management to gain free access to all the records without allowing the management to interpret or screen evidence for him.

- **Reporting Independence:** This is the ability of an auditor to express his opinion in fullness and fairness without allowing the management to overrule his professional judgment as disclosed in the report.

Perceived independence is the apparent independence of auditors as a group. It is about independence in appearance. It deals with people's perception about auditing as a profession and auditors' image as a group. It centres on questions like; are auditors perceived as thoroughly independent professional men or hired employees? In this regard, auditors must always avoid any appearance of lacking independence. As much as the individual practitioners must be independent, the profession at large must not show any sign that it lacks independence. Discipline must be instilled in the profession so that the general publics who rely on auditors' professional judgment for decision making are not misled.

Avila and Jaques (2013) identifies the following factors as some of the factors affecting auditors' independence: amount of audit fees received by the audit firm (in total percentage of audit revenue), non-audit services and tenure of audit.

- **Amount of Audit Fees by Audit Firm:** Gul in Adeyemi and Akinniyi (2011) posits that the size of audit fee is a major explanatory factor for the ability of the auditor to resist the pressure of management, regardless of the provision of advisory services. The large size of audit fees is associated with a higher risk of loosing the auditor's independence (Avila and Jaques, 2013). In a situation where the size of audit fees forms a greater proportion of the total audit revenue, audit fees will be a threat to the audit independence.

- **Non-audit Services:** Although, it has been argued by some people that provision of other services (non-audit) to clients enhances the auditors' ability to understand client companies and therefore encourages the establishment of a well founded opinions. However, it is widely agreed that acceptance and execution of lucrative consulting contracts by auditors creates a too-close working relationship between the auditors and the clients. In such a situation, auditors can express biased opinions about financial statements. Hay, Knechel and Li (2006) opine that rendering of non-audit services creates a potentiality for the impairment of auditor's independence in appearance. In other words, rendering of non-audit advisory services increases quasi-rents and thereby pose a threat to auditor's independence (Reiner and Bent, 2009).

- **Tenure of Audit:** A prolonged period of audit encourages confidential relationship between the auditor and his client and this may hinder auditor's professional judgment. The longer an audit firm retains a client, the less able it is to maintain objectivity (Davies et al in Adeyemi and Akinniyi, 2011).

- Other elements identified as factors affecting auditors' independence include size of audit firm, size of audit market and level of competition in the market of audit services (Salehi and Mansoury, 2009; Kitindi, 2004).

Methodology

For the purpose of affirmation of people's opinions about auditors' independence, a survey research design was adopted through questionnaire administration. A sample size of 100 individuals comprising the Accounting lecturers, Practicing Auditors, Management of Public enterprises and the general public within Niger and Kwara States were chosen. Twenty five (25) questionnaires were administered on each stratum. Out of the one hundred (100) questionnaires distributed, eighty two (82) copies were recovered. Hence, the analysis, through descriptive statistics, was based on the eighty two (82) recovered questionnaires.

In addition to the above primary method of data collection, relevant literatures such as textbooks and journals were equally reviewed.

PRESENTATION OF DATA

The responses from the questionnaires administered are presented below:

Table 1: Respondents' Categories

Category	Frequency	Percentage (%)
Accounting Lecturers	24	29
Practicing Auditors	20	24
Management	16	20
General Public	22	27
Total	**82**	**100**

Source: Field Survey, 2013/2014

Table 2: Size of Audit Fees Hinders Auditors' Independence

Respondents / Responses	Strongly Agree	Agree	Disagree	Total	% of Strongly Agree	% of Agree	% of Disagree	Total Percentage
Accounting Lecturers	10	14	0	24	12.2	17.1	0	29.3
Practicing Auditors	0	8	12	20	0	9.8	14.6	24.4
Management	2	5	9	16	2.4	6.1	11	19.5
General Public	8	13	1	22	9.8	15.8	1.2	26.8
Total	**20**	**40**	**20**	**82**	**24.4**	**48.8**	**26.8**	**100**

Source: Field Survey, 2013/2014

Table 3: Rendering of Non-Audit Services Impairs Auditors' Independence

Respondents / Responses	Strongly Agree	Agree	Disagree	Total	% of Strongly Agree	% of Agree	% of Disagree	Total Percentage
Accounting Lecturers	22	2	0	24	26.8	2.4	0	29.2
Practicing Auditors	0	3	17	20	0	3.7	20.7	24.4
Management	1	2	13	16	1.2	2.4	15.9	19.5
General Public	20	2	0	22	24.4	2.4	0	26.8
Total	**43**	**9**	**30**	**82**	**52.4**	**10.9**	**36.6**	**100**

Source: Field Survey, 2013/2014

Table 4: Prolonged Audit Tenure Poses a Threat to Auditors' Independence

Respondents / Responses	Strongly Agree	Agree	Disagree	Total	% of Strongly Agree	% of Agree	% of Disagree	Total Percentage
Accounting Lecturers	10	14	0	24	12.2	17.1	0	29.3
Practicing Auditors	0	5	15	20	0	6.1	18.3	24.4
Management	1	3	12	16	1.2	3.7	14.6	19.5
General Public	7	10	5	22	8.5	12.2	6.1	26.8
Total	**18**	**32**	**32**	**82**	**21.9**	**39.1**	**39**	**100**

Source: Field Survey, 2013/2014

Table 5: Size of Audit Firms Affects Auditors' Independence

Respondents / Responses	Strongly Agree	Agree	Disagree	Total	% of Strongly Agree	% of Agree	% of Disagree	Total Percentage
Accounting Lecturers	0	10	14	24	0	12.2	17.1	29.3
Practicing Auditors	0	4	16	20	0	4.9	19.5	24.4
Management	0	2	14	16	0	2.4	17.1	19.5
General Public	2	11	9	22	2.4	13.4	11	26.8
Total	**2**	**27**	**53**	**82**	**2.4**	**32.9**	**64.7**	**100**

Source: Field Survey, 2013/2014

Discussion of Results and Findings

Considering the above responses from questionnaire administered, table 2 reveals that about 49% agreed that size of audit fees hinders auditors' independence. 24% strongly agreed to the statement while 27% was in disagreement. Thus, size of audit fees hinders auditors' independence.

From table 3, about 52% of the respondents strongly affirm that rendering of non-audit services is capable of impairing auditors' independence. With this factor having the highest percentage of strongly agree, non-audit service is a serious threat to auditors' independence.

Also, about 39% of the respondents agreed that prolonged audit tenure can hinder auditors' independence. Although the percentage of strongly agree of about 22% as contained in table 4 is relatively low. However, putting the two percentages (strongly agree and agree) together, it was discovered that prolonged audit tenure can make auditors to compromise their independence.

Table 5 shows that size of audit firm has little effect on auditors' independence as almost 65% responded in disagreement against the agreed and strongly agreed percentages of 35%.

Conclusion and Recommendation

Conclusion

Auditing is a profession that plays vital roles in fostering public integrity, transforming the economy of a nation and thereby ensuring sustainable economic growth and development. However, for such role to be effectively and efficiently played by auditors, auditors must be given free hands to operate, so that opinions can be expressed with objectivity and independence.

Recommendations

Based on the discoveries of this study, the following recommendations are offered to improve the quality of audit practice so that a sustainable economic environment can be realized for the transformation of Nigerian economy.

- **Review and Strengthening of Legal Framework:** Relevant laws should be reviewed and strengthened to enforce prohibition of execution of lucrative consulting contracts by statutory auditors.

- **Strengthening and Empowerment of Supreme Audit Institution:** Supreme Audit institution (SAI) should be strengthened by ensuring a law that guarantees independence of the head of the SAI so that SAI can engage experts or consultants freely to audit public organizations and provide adequate guidance on the level of fees to be paid to auditors.

- **Compulsory Rotation of Audit Firms:** Maximum number of years should be established for statutory auditors to avoid prolonged audit tenure. However, minimum years can also be encouraged to discourage intimidation.

- **Training of Auditors:** Constant training and professional education on the subject of independence should be promoted.

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Reference to this paper should be made as follows: Salau O.N. *et al.,* (2013), Auditors' Independence in the Context of National Transformation and Sustainable Economic Growth in Nigeria. *J. of Business and Organizational Development Vol. 5, No. 2, Pp. 108 – 118.*