The Modelling Effects of Independence Auditors on Financial Reporting Quality of the Listed (DMBs) In Nigeria

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ABSTRACT
The study examines the modeling effect of the independence auditors on financial reporting quality of the listed deposit money banks (DMBs) in Nigeria. The data were collected from the Annual Reports of the sampled size. The hypotheses were tested using multiple regression technique. At the end of the study, the study revealed that there is a positive and significant effect with the audit fees and financial reporting quality at 5% levels of significance. This means that 60.43 increase in the audit fees shall bring about corresponding increase in the financial reporting quality of the while audit firm rotation and audit tenure showed negative relationship with financial reporting of the listed DMBs in Nigeria. The study recommended that management of DMBs should follow the law that was put in place in regard to specified audit fee in Nigeria and the length of audit tenure should be between one and three years so that the auditor can combat and prevent fraud and improved the financial reporting quality. Finally, audit rotation should be at the range stipulated by the regulatory bodies.

Keywords: - Audit fees, tenure, rotation, financial reporting quality, listed DMBs in Nigeria

I. INTRODUCTION
The main responsibility of auditor in carry out audit works for an organization is to critically review the financial statements of the firm whether the financial statement obtained are free of materials misstatements, verifying the documents obtained in the case of y error of fraud and which will help the auditors to express an opinion on the fairness which are used by possible investors and other users. Notwithstanding, auditors are to detect fraud and other irregularities. The 8th schedule of the Act laid down detailed of disclosure requirements in order to give shareholders the necessary information about company affairs but the reverse be the case because auditors have been stress by management of the same company to compromise their stand in reporting away from detection of fraud and error and this information are used by potential investors and other users. The independence of auditors are act in the interest of primary stakeholders, which having regard to the wider public interest. International Federation of Accountant's (IFAC) Code of Ethics and in the European Union's Eighth Directive stipulated that the external auditors that want to engage in audit work in any firm should be independent of their clients in the cause of carry out the audit. The requirements from the IFAC code serves as guideline in auditing work by the auditors to their clients in order to ascertain and ensure that the firm conform with statutory and profession requirement that guide the services.

Over the periods now, there are been cases of bankruptcies of countless big companies where auditors express opinions after accumulated and assessed all the necessary evidence together which to form an opinion but these reports are called to questions whether these reports are validity of the financial statements prepared by auditors of those companies. Cadbury case in Nigeria in 1990, Enron case in the United States of America and Parmalat in Italy are unforgettable plain cases. Okolie (2014) stress the point that financial statements prepared by the auditor of the company are to express an independent opinion in regards to the reports. Therefore, independence auditor are to provide to directors and officers constructive observations arising from the audit process, and thereby contribute to effective operation of the company. Okolie (2014) suggests that the level of reliability of report prepared by auditor of the firm are to serve as a road map to investors and other users of financial information. For financial reporting to be understood clearly the presentation should not be misleading or ambiguous, users should be able to understand the information presented without undue effort (IASB 2008).

The quality of financial reporting has always been an issue of interest among regulatory bodies, shareholders, researchers and he accounting profession itself. This is due to the fact that financial reporting has been a principal means of communicating financial information to outsiders (Johnson, Khurana & Reynolds 2002) and the use of financial report itself in assessing the economic performance and condition of a business in the
quest to monitor management’s actions and assist in making economic decision (Warren & Reeve, 2004).

Audit independence an objectivity which will help auditor in applying prohibitions regulatory to parties that cannot manipulates the audit work. The authors have developed a set of eight principles that should be part of the conceptual framework. According to, Okolie (2014) suggest the nature of the auditor’s work requires him to be independent from the control of any clients so that he can objectively form an opinion on the financial statements examined by him and not tossed by wind from either the owners of the resources or the managers of such resources.

Therefore, auditors in Nigeria are saddled with the responsibility of examining the financial statements of organizations for the purpose of ascertaining their truth and fairness. The auditing profession in Nigeria is regulated by a combination of three regulatory documents. The Companies and Allied Matters Act (CAMA), No. 1 of 1990 serves as the supreme regulator; while the Nigerian Standards on Auditing (NSAs) and Rules of Professional Conduct released by ICAN and ANAN for the members in practice. The main objective of these regulatory documents is to provide guidelines for the practice of auditing in Nigeria.

Although CAMA provides extensive provisions on the practice of auditing in Nigeria, it fails to specifically address the issue of auditor’s independence. However, it contains only guidelines as to the manner at which the auditors should be appointed, how they should function and to whom they should report to. The other two regulatory documents also do not capture explicitly what auditor’s independence means but rather require auditors to be independent and be seen acting as such. However, they provide detailed list of issues that surrounds the auditor’s independence.

The main thrust of ethical standards in auditing is to ensure and uphold the auditor’s independence (Jacking, et al., 2007; and Derma & Beard, 2005). Independence has become an emotive word, a banner standing for freedom, integrity and all that is good.

Aderibigbe (2005) suggests that independence can be classified into two families: the family is those that fall within a family of words implying an absence of a similar to insular, isolated, unrelated, remote and disconnected. The Second family is those that fall within a family of words implying freedom from the exercise of powers which are: unhindered, free, emancipated or influence and free from dominance and this has been monitor in Nigeria to make them independence.

The frequently cautioned and monitor by those professional accounting bodies (i.e. ICAN, ANAN and ITCN) in Nigeria has set code of conduct that will guide the auditors and investigate auditor’s reports in order to minimize the jeopardy and not to defeat the purpose of public audit and erode the independence and hence, the objectivity of report of the auditors. It is therefore doubtful if the independence of the auditor will have any significant impact on the accountability and quality of independent auditor in Nigerian banking industry.

II. STATEMENT OF RESEARCH PROBLEM
Some banks that are still in business and are also listed in the Nigeria stock exchange has not adopted the audit rotation, tenure and fees as stated in IFAC. The directors of banks are empowered to appoint, reappoint, and remove their external auditors and they are also to fix the external auditor’s fees using the guidelines of the Auditor-General as an aid. The problem so created is that the directors are officers of the organization, who also have the responsibility of managing the funds, budgeting, spending including awarding of contracts and the preparation of financial statements. The same people who are therefore placed in a position to render stewardship accounts are now given the power to hire and fire external auditors who would audit the accounts of their own activities. This runs counter to the ideal principles of public accountability which will also negatively affect their independence in expressing their audit opinion consequently, this will affect the quality of the financial report prepared by the organization and quantified by the auditor.

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auditors to be independent and be seen acting as such. However, they provide detailed list of issues that surrounds the auditor’s independence. Betties and Fernley (2002) opined that after the collapse of error it was generally believed that rendering of non-audit services compromised the independence of external auditors. In the real world, when business entities collapse the consequences are usually enormous. The oversight function of the auditor is placed under scrutiny when a business whose financial statement once showed no indication of any failure suddenly becomes bankrupt. As follows a follow up to the oversight function, the independence of the in such circumstance would be in doubt.

According to Aderibigbe (2005), the word independence has two distinct meanings. Firstly, it falls within a family of words implying an absence of relationship like unrelated, disconnected, isolated, remote and insular. Perhaps this is the reason why, in the olden days, auditors were often required to hold shares in their client companies so as not to be too independent. Secondly, independence falls within a family of words implying freedom from the exercise of powers; for example, free, unhindered, emancipated and free from dominance or influence, the independence of auditors in Nigeria has been frequently cautioned. The way at which Nigerian auditors secure their audit assignments and the rate at which they lobby for auditing job put their independence in jeopardy.

Financial reporting quality in banking industry remains weak compared too many advanced jurisdictions which may results to hampering the growth in the equity market. A common compliant among investors which may be unreliable report and also the financial reporting of the firm performance on lacks reliability, unavailable or, if provided (Shehu, 2011). therefore, the main aim of setting standard such as corporate governance, accounting standards and institutional structure are to be different from those in the other countries in terms of guideline which will lead to advancement and as well as compliance to the regulatory.

ICAN and ANAN are well recognized in Nigeria as professional bodies, these bodies have lay down role and regulation as professional code of conduct for their members in carry out their audit engagement by way of enforcement their members to saddle their responsibility in line with professional guide. Auditor's investigative and reporting independence are put in place to avoid the jeopardy and not to defeat the purpose of public audit and erode the independence in order to report reliable financial statement for the ushers of financial information. Given all these all these opinions, it is not clear that the confirmation from deposit money bank in Nigeria which are expected to report the validity financial statement without compromise the professional code (Holland &Ramsey 2003). Therefore, based on previous study that studied the effect of firm attribute on financial reporting quality documented the mixed results in the same matter from different countries is necessary which will be interested to investors.

Some of these banks that fail to follow the guide lines that guide the preparation of financial report quality. The researchers consider it essential to examining the modeling effect of independence auditors on the financial reporting quality of listed (DMBs) in Nigeria.

III. OBJECTIVES OF THE STUDY

The main objective is to examine the modeling effect of independence auditors on financial reporting quality of the listed (DMBs) in Nigeria. Therefore, the following are the specific objectives:

1. To ascertain the impact of audit fees on financial reporting quality of (DMBs) in Nigeria
2. To examine the impact of audit tenure on financial reporting quality of (DMBs) in Nigeria
3. To indentify the impact of audit rotation on financial reporting quality of (DMBs) in Nigeria

Hypotheses

H1, H2 and H3: Audit fees, Audit tenure and Audit rotation has no significant effect on financial reporting quality of (DMBs) quoted on (NSE).

IV. REVIEW OF RELATED LITERATURE

Gule (2003) examines the impact of audit fees on discretionary accruals in a sample of Australian and firms. The study revealed a positive association between financial reporting quality (discretionary accruals) and audit fees. Yuniarti (2011) that the audit fee is the fees paid for annual audits and evaluates of annual financial reports for the most recent fiscal year. The amount of audit fee can vary depending on the complexity of services, assignment risk, and the cost structure of Public Accountants Firm, the required level of expertise, and other professional considerations. Francis & Ke (2003); and Reynolds & Francis (2004) found that audit fee shows a positive relationship with earnings quality and between financial reporting quality (discretionary accruals), therefore it improve the quality of the financial reporting of the sample size.
Fargher, Lee and Mande (2005) study the association between the variables of partner tenure and a measure of unexpected accrual for the period of twelve (12) from 1990 and 2002 on the companies listed on Australian stock market. Their result shows that a negative relationship exists with signed unexpected accruals while positive relationship exists with absolute value of unexpected accruals. Chen, et al., (2004) documented a negative association between the absolute value of unexpected accruals and audit partner tenure in their study.

Geiger and Raghunandan (2002) investigate how US sample companies improving auditor independence through selected mandatory rotation. The result revealed a negative association between audit tenure and financial reporting quality failures of the companies under study. In the same vein, Carcello and Nagy (2004) had an attempt to examine the connection between long tenure of auditors and audit quality from the view of fraudulent practices and their result indicated that no significant relationship and concluded that mandatory changes of auditor could have negative effect on audit quality. Abedalgader, Ibrahim and Baker (2010) their study base on existing association between the audit quality length of audit tenure of listed firms on Ammon Stock Exchange (ASE). The result shows that length of audit tenure has insignificant impact on audit quality.

Ilaboya and Ohikha (2014) study the relationship between audit firm characteristics and audit quality in Nigeria auditor’s rotation. From the result presented, auditor’s rotation is negatively related to audit quality. Similarly, Adeniyi and Mieseigha (2013) documented the same result from their study which based on the relationship between audit rotation and audit quality in Nigeria. However, Vanstraalen (2000) examine impact of renewable long-term of audit mandates on audit quality. The result shows that audit tenure and long-term of audit mandates has a negative relationship.

Barbadillo and Aguilar (2008) was present a result that are contrary result in relation to audit tenure and quality of financial reporting. This means that auditors of the firm tend to be more dependent in the first years of the auditing appointment. The study concludes that the shorter the auditor’s tenure, the more they act in a dependent fashion and it will lead to financial reporting quality.

Hasanal, Mohammad and Amin (2015) examine the connection between the variables of audit importance and quality financial reporting focus on Iran’s capital market. The study uses data from annual financial report of the sample size for the period of nine (9) years from 2004 to 2012 to investigate the association between the variables (includes; audit client and audit fees). The results of logistic regression analysis in support of the research hypothesis show that the value of the firm that audited has a significant positive correlation with the quality of financial reporting. The findings were consistent with the findings of Onaolapo, Ajulo & Onifade (2017) in Nigeria, who documented the same results.

V. RESEARCH METHODOLOGY

The study examines the modeling effects independence auditors on financial reporting quality of the deposit money banks quoted on Nigerian Stock Exchange. The study adopted the ex-post factor research design because the data of the study is available in financial reporting of the sample size which based on past events that took place before now. The period under consideration is five (5) years from (2012-2016). The variables of the study were classified into two: dependent variable (financial reporting quality) while independent variables (includes; audit rotation, audit fees and audit tenures).

Population and Sample Size

The population of this study comprise of (DMBs) that are listed on the Nigerian stock exchanges from (2012 to 2016) that make their financial reports available for the period covered. Eighty (8) deposit money banks meet the established criteria, the banks are: Diamond bank Plc, Guaranty Trust Bank Plc, First City Monument Bank Plc, United Bank for Africa, Fidelity Bank Plc, Access Bank Nigeria Plc, First Bank of Nig. Plc, and Zenith Bank plc and it is dependent on data availability.

Nature and Source of Data

The study based on secondary data sources extracted from the (8) deposit money banks in Nigeria. The data are available for each companies extracted from annual reports of the sample size, these established a fat that the reports are more reliable since deposit money banks listed on Nigerian Stock Exchange are required to prepare their account every year and to published accounts that give true and fair view of their companies in line with rule and regulation from Companies and Allied Matters Decree of 1990. Related data on audit fees, audit tenures, audit rotation and financial reporting quality were sourced for from the financial statements of the companies under study.
Dependent and Independent Variables

Financial reporting quality is dependent variable of the study by adopted the discretionary accruals of companies under study. Therefore, audit fees, audit tenures and audit rotation are used by researchers as variables for auditor’s independence.

Statistical Analyses

For the purpose of empirical analysis, this study uses descriptive statistics and linear multiple regression as the underlying statistical tests. The regression analysis was executed on the (FRQDA) to test the effect on the (AFEES, AFR and AFT). For the purpose of these objectives the following regression model was adopted:

\[ \text{FRQDA} = \beta_0 + \beta_1 \text{AF}_t + \beta_2 \text{AT}_t + \beta_3 \text{AR}_t + e_t \]

Where:

- \( \beta_0 \) = Intercept coefficient
- FRQDA = Financial reporting quality measured by the discretionary accruals, AF = Audit fees, AT = Audit tenure, AR = Audit rotation

VI. RESULT AND DISCUSSION

The empirical analysis the modeling of effect of auditor’s independence variables (audit fees, audit tenures and audit rotation) and variable of financial reporting quality of the listed DMBs in Nigeria within a period of five (5) years (2012-2016) was presented in this section. Data obtained from secondary sources were analyzed in relation to the objective of the study. This part of the study is divided into two; the first part gives the descriptive analysis while the second part gives the inferential statistical analysis of the data followed by discussion of findings.

Table 4.1 Descriptive Analysis of Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>FRQDA</th>
<th>AFEES</th>
<th>AFR</th>
<th>AFT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>1.069416</td>
<td>7.703545</td>
<td>0.225</td>
<td>0.45</td>
</tr>
<tr>
<td>Max</td>
<td>1.953202</td>
<td>8.319819</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Min</td>
<td>0.0238895</td>
<td>6.863661</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>p50</td>
<td>1.041393</td>
<td>7.744003</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Skewness</td>
<td>-0.2979349</td>
<td>-0.8429693</td>
<td>1.317106</td>
<td>0.2010076</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>3.216601</td>
<td>4.544821</td>
<td>2.734767</td>
<td>1.040404</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>0.3717165</td>
<td>0.2841192</td>
<td>0.4229021</td>
<td>0.5038315</td>
</tr>
<tr>
<td>N</td>
<td>40</td>
<td>40</td>
<td>40</td>
<td>40</td>
</tr>
</tbody>
</table>


Table 4.1 above shows that financial reporting quality measured by the discretionary accruals has a mean value of (1.07), maximum and minimum value of 1.95 and 0.02 correspondingly. The standard deviation of (0.37) shows there is little deviation from the mean. Audit fee has a mean value of (7.70), maximum value of (8.32) and minimum value of (6.86). The standard deviation of (0.28) shows a considerable dispersion from the mean. Audit tenure has a maximum value of (1) and a minimum of (0). The standard deviation of (0.50) shows a little dispersion from the mean value (0.45). Audit rotation has a maximum and minimum value of (1) and (0) respectively with a mean of (0.23). The standard deviation of (0.42) shows a significant deviation from the mean value of (0.23).

Table 4.2 Regression Results

| Random-Effects GLS regression | Coef. | Std. Err. | t | P>|t| |
|-------------------------------|-------|-----------|---|------|
| Variables                     |       |           |   |      |
| AFEES                         | 0.433345 | 0.1968661 | 2.20 | 0.036 |
| AFR                           | -0.1466749 | 0.110654 | -1.33 | 0.195 |
| AFT                           | -0.1167694 | 0.0934728 | -1.25 | 0.222 |
| _Cons                         | -2.183329 | 1.516306 | -1.44 | 0.161 |
| R-Square                      | 0.1946 |           |    |      |


Table 4.2 presents the regression model for the study. Effect of independent variables namely: AFEES, AFR and AFT on the (financial reporting quality measured by the discretionary accruals) as dependent variable of the study. Result from the analysis indicated that significant relationship exists between (FRQDA) and (AFEES, AFR and AFT) taken together with both coefficient of determination (R2) 19.46% and a combined p-value of 0.0945. This implies that the predictive
authority of the audit fees, audit tenure and audit rotation as used to explain changes in financial reporting quality measured by the discretionary accrals is about 19.46%.

Furthermore, while (audit fees, audit tenure and audit rotation) variables, audit fees has positive relationship with financial reporting quality measured by the discretionary accrals and significant consistent with the findings of Onaolapo, Ajulo & Onifade (2017), Hasanal, Mohammad & Amin (2015), Gule (2003), Yuniarti, (2011), Yuniarti (2011) and Listya et al (2014) but inconsistent with the findings of Francis & Ke (2003); and Reynolds & Francis (2004). Two independent variables namely; audit tenure and audit rotation shows a negative effect. The findings is consistent with (Ilaboya and Ohiohka 2014; Adeniyi and Mieseigha 2013; Abedalgader, Ibrahim & Baker 2010; Barbadillo & Aguilar 2008; and Vanstraelen 2000). To this end the study accepts the null hypothesis one that states ‘there is significant relationship between audit fee and financial reporting quality measured by the discretionary accrals of quoted DMBs in Nigeria and therefore rejected the null hypothesis two and three that there is no significant relationship between audit tenure and rotation and financial reporting quality measured by the discretionary accrals.

VI. CONCLUSIONS

The study empirically investigates the modeling effects of independence auditors on quality financial reporting of the Nigerian banking sectors. The sample size consist of the eighty (8) quoted (DMBs) in Nigeria between (2012 and 2016) the outcome showed existing in relationship. The result shows that there is a significant relationship between audit fees and financial reporting quality with a positive relationship. The positive significant suggest that and that the audit fee is subject on the financial reporting quality; when the management decided to increase the audit fee, there will be reliable in reporting and more qualitative the financial reporting quality from the auditors of the (DMBs) in Nigeria. Therefore, from this result the researchers bring to a close that audit fee and financial reporting quality is significantly and positively related. This corroborates findings from Novie (2013) and Babatolu, et al., (2016). Moreover, while audit tenure was found to exhibit negative but insignificant relationship with financial reporting quality, audit rotation was found to show negative insignificant relationship with financial reporting quality. These findings are consistent with the works of Yuniarti (2011) and Listya et al., (2014). In other to improve financial reporting quality of DMBs in Nigeria, the study recommends that the Government through the various professional bodies should develop robust policies that will help improve financial reporting quality in Nigeria. Moreover, a well-defined standard sanctioned by law should be put in place to regulate audit fee and auditors’ tenure in Nigeria. Auditors should as well ensure that the they responsibility lay in their hands to prepare and present a quality financial report wherever they are saddle with assignment and they should stand on the core and value of the regulation this will boost the self-assurance of users of accounting information and the general public.

REFERENCES


