AN ASSESSMENT OF AUDITORS' INDEPENDENCE AND AUDIT REPORTS IN NIGERIA

BY

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M.SC./ADMIN/23848/2000-2001

BEING A THESIS SUBMITTED TO THE POST GRADUATE SCHOOL, AHMADU BELLO UNIVERSITY, ZARIA, IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF SCIENCE (M.SC.) DEGREE IN ACCOUNTING AND FINANCE, DEPARTMENT OF ACCOUNTING, FACULTY OF ADMINISTRATION, AHMADU BELLO UNIVERSITY, ZARIA, NIGERIA.

DECEMBER, 2002.

DECLARATION

I Kufur, Ishaku Silvanus hereby declare that this research work was solely conducted and written by me under the supervision of Mr. A. Silva.

To the best of my knowledge and belief, this work is a record of my own research work which has never been submitted in any institution for any award of a degree or certificate of whatever kind.

All borrowed materials are duly and properly acknowledged.

I take the sole responsibility for all errors contained there in.

NAME OF STUDENT	SIGNATURE	DATE
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CERTIFICATION

This Thesis entitled, “An Assessment of Auditors’ Independence and Audit Reports in Nigeria”, by Kufur, Ishaku Silvanus meets the regulations governing the award of the degree of Master of Science in Accounting and Finance (M.Sc. in Accounting and Finance) of Ahmadu Bello University, Zaria, and is approved for its contribution to knowledge and literary presentation.

Name of Supervisor	**Signature**	**Date**
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Name of Chairman Supervisory Committee	**Signature**	**Date**
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Name of the Head of Department	**Signature**	**Date**
…….	……...	…….
Name of the Dean Of Post Graduate School	**Signature**	**Date**
……...	……..	……..

DEDICATION

This work is dedicated to:

Silvanus Kufur my father, whose life and character are worthy of emulation.

Saraya Silvanus my mother, in whom I saw the dignity of professionalism.

Chaginenda Silvanus who exemplified growth from service cheerfully rendered.

Chavalada Silvanus who possessed vision to see beyond the ordinary in finding solutions to problems.

Dominic Silvanus who sees value in and has respect for every human being.

Nuhu Silvanus who is an example of sustained desire and constant effort.

Aitiyana'a Silvanus who taught me that justice is the principle upon which all others are based.

Naphtali Silvanus who improved my methods of inquiry.

ACKNOWLEDGEMENT

I am most grateful to Almighty God for his merciful guidance, grace, knowledge, wisdom and divine health given to me throughout this research work. The success of this thesis in particular and my entire academic struggles both as an undergraduate and postgraduate student in the University were by no means a function of my effort but that of the omnipotent God. Hence, to the most supreme God I owe eternal appreciation.

However, in recognizing human efforts, I wish to first and foremost express my sincere and unreserved gratitude to my supervisor Mr. A. Silva for his understanding, perseverance and concern towards my career as well as his overall total commitment to this research work who despite his crowded academic programme took time to carefully moderate the work. I would not forget his painstaking, constructive criticisms and scholarly suggestions that actually made this research work meaningful. It is only almighty god that shall reward him for the inspiration and courage he gave me throughout the period of my research work. May Almighty God bless him and increase him in knowledge and wisdom and open up his means of sustenance in abundance.

The continuing unquantifiable generous support, suggestions and assistance given to me by Mr. A. B. D. Watoseninyi, the Bursar, Ahmadu Bello University, Zaria, is sincerely acknowledged, particularly in regard to the word of advice, moral and material support of this thesis. A father in

sorrow and joy; courageous, intelligent, a comforter, unforgettable, wisdom, and knowledge. May your humility and loving kindness endures forever.

I wish to express my sincere thanks to many professors and Doctors of accounting and finance and management, accounting and auditing practitioners, accounting professional bodies, governmental regulators, registered practicing firms of external auditors, listed public limited companies, managers, managements and directors of public limited companies and the general public known as interested parties who have offered helpful suggestions for this thesis.

I also appreciate the insightful suggestions, encouragement, moral and material support of Dr.R.D. Wammanda, the consultant, Department of Paediatrics, Ahmadu Bello University Teaching Hospital, Zaria. His concern for finishing the research work within a stipulated time and quality of the work is beyond the ordinary.

I gratefully acknowledge the contributions of my friends too many to mention individually here who greatly encouraged and inspired me to carry out this research study. The contributions of everybody whose names cannot be also mentioned here is highly appreciated.

I wish to record my thanks to our family for suffering so cheerfully, the trials of living with a student in labour. The scripture, Psalm 127:1 affirmed my personal conviction.

And last but definitely not the least, a special recognition goes to Mrs. R. Shagaiya my typist, for her excellent typing and the final production of the thesis.

However, I wish to state here that all acts and omissions contained in this work remain entirely mine in spite of all helps and suggestions I received from concerned friends and contemporaries.

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ABSTRACT

This research study was aimed at critically assessing the statutory auditors' independence and audit reports in Nigeria.

Many members of the Public believe that auditors are usually manipulated by managements of their client companies.

The research population used for the study comprised all the registered audit firms of external auditors in Nigeria, the listed Public limited companies and the general public who are also known as interested parties.

The significant research questions examined were, whether the present statutory and professional provisions in relation to auditors' independence and audit reports are adequate?. Are auditors' reports (opinions) fully understood by members of the Public (users) vis-à-vis their expectations?.

The survey and descriptive methods of research were employed in carrying out this research.

The statistical tools used in the analysis of the data collected were tables, frequency distributions and simple percentages.

It was observed that external auditors are manipulated by managements during the course of performing their audit task thus undermining auditors' independence.

It was also established that majority of the members of the public who are also known as interested parties do not fully understand what actually audit reports (opinions) are all about.

It was recommended that the audit reports should be directed to shareholders and other users of financial statements of the client company.

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CHAPTER ONE
INTRODUCTION

.1 GENERAL BACKGROUND OF THE STUDY

Auditing plays an important role in the successful operation of a business unit. The impetus behind the emergence of an auditor on the business scene was the managerial revolution. Managerial revolution simply means the separation of ownership from management. This development was brought about by the advent of large business organizations that are jointly owned by several individuals where it became practically impossible for the owners to manage the companies on their own. Consequently, the owners of such companies appointed other people to run the companies on their behalf. Thereupon, a need arose for periodic link between the owners (shareholders) and managers (management) of such corporations. The major link between the owners and management is the periodic reports on financial affairs and level of progress achieved by the business which are made by management (Board of Directors) to the owners (shareholders).

The periodic reports referred to above are the financial statements. To the shareholders, the financial statements prepared by the management are nothing but assertions that need to be authenticated. For this reason, a qualified and independent accountant either as an individual or a firm, is required to examine and attest to the reliability of the information provided in the financial statements by management. Hence, Auditor gives credence to the financial statements in order to protect the interests of the shareholders.

Furthermore, it is not only the shareholders that are interested in the reliability of the financial statements. Other parties like potential investors, lenders, security or financial analysts, customers, suppliers, employees, government and the general public are equally interested in the financial statements. On this account, the Auditor as a professional has a duty of care to

protect the interests of all these parties in the course of performing his duties for a given client.

What makes External Auditor unique to shareholders and users of financial statements is his "independence." Furthermore, Auditor's Report (opinion) is one of the most essential aspects in the Auditor's work. This is because it is his ultimate opinion on the financial statements that will inform the degree of reliability that should be attached to such financial statements.

By and large, the significance of auditors' independence and reports (opinions) cannot be over-emphasized. However, the practical values of auditors' independence and reports (opinions) are what that matter most to the shareholders and other users of the financial statements. Hence, this is the underlying factor that would be examined by this study.

1.2 STATEMENT OF THE PROBLEM

Public limited companies jointly owned by several persons were established to render services that individual proprietors could not cope with. This brings in the need for accountability by those appointed to manage and direct the affairs of these Public corporations. Can the performance of these business units be enhanced by an independent examination of their books of accounts and related documents and records?

It is observed that some people are of the opinion that independent examination of books of accounts by external auditors can bring about improvement in the performance of these business units be enhanced by an independent examination of their books of accounts and related documents and records?

In the Nigerian context, it is observed that some people are of the opinion that independent examination of books of accounts by external auditors can bring about improvement in the performance of business units. Others believe that there is no evidence to prove that the task performed by external auditors has assisted in improving the performance of these companies. Infact, some people even point out that there is the absence of any system of examination, investigation, verification, and monitoring of performance of the public companies in Nigeria.

The problems this study attempts to examine are as follows:

(1) Many members of the public believe that Auditors are usually manipulated by managements of the companies they audit.

(2) Many people are of the opinion that Auditors pursue personal interests in the course of performing audit functions for their clients.

NOTE: A situation in support of (i) and (ii) above:

Distress in the Nigerian banking industry in the 1990s has led to a big question mark on the auditors' independence and audit reports (opinions), most especially as all the banks that went under the distress were given a clean bill of health in the immediate accounting years preceeding their distress.

1.3 OBJECTIVES OF THE STUDY

The primary objective of audit function and the resultant audit reports in Nigeria is to help the public Companies to increase their values and outputs, while interested parties should be able to be better informed towards making investment decisions. Auditing is thus aimed to help companies to create values and increase their capacity to earn more income which will result in improving their performance and also the living condition of the interested parties. In the light of the above, the main objective of the research is to assess the auditors' independence and auit reports in Nigeria. Specifically, efforts would be made to:

(i). Determine whether auditors' independence in Nigeria has improved the level and contents of audit reports (opinions) and the credibility of financial statements.

(ii). Find out whether or not the external auditors are free from all external influences in the course of carrying out their professional duties to their clients.

(iii). Establish whether or not audit reports (opinions) meet the expectations of the external users of the financial statements.

(iv). Determine whether audit reports given to public companies in Nigeria by external auditors have been given serious attention or not.

(v). See if there are likely factors that hinder the independence and the professional reports (opinions) of external auditors.

(vi). Provide suggestions (where possible) on how to improve and enhance auditors' independence and audit reports (opinions) in Nigeria.

1.4 SCOPE OF THE STUDY

The study focuses on the Statutory Auditors for the Public companies. In other words, the study deals with the public companies and their External Auditors who are commissioned to audit their accounts. The study will attempt to assess auditors' independence and audit reports in Nigeria. The issue of interested parties, users of financial statements, the concept of auditors' independence and audit reports in Nigeria will also be considered. Thus, the study will be limited to only external auditors, public companies, the interested parties and users of financial statements in Nigeria. The study will cover the period from 1991 to 2000. It will therefore be inappropriate to apply the results of the study to other category of auditors or audits and organizations or any other sectors of the economy in Nigeria.

1.5 RESEARCH QUESTIONS

For the purpose of this research, the followings are the fundamental research questions:

(i). Are external auditors really independent in carrying out their duties in the Nigerian environment?

(ii). Is there any difference in terms of profitability, operating efficiency, investment base, productivity and dividend payment?

(iii). What is the public perception about the independence and reports of the external auditors?

(iv). Are the present statutory and professional provisions in relation to auditors' independence and audit reports adequate?

(v). Are auditors' reports (opinions) fully understood by members of the public (users) vis-a-vis their expectations?

(vi). Is there any need to expand the areas to be covered by auditors' reports?

1.6 SIGNIFICANCE OF THE STUDY

With the hope that this research would be successful, the followings are the significance of the study:

i. External Auditors in particular and the accounting profession in general will find this study useful. This is because some of the recommendations that will emanate from this study will help to strengthen the independence of the auditors. Besides, the usefulness of the auditors' reports can also be enhanced through the recommendations of the study. Consequently, the image of the accounting profession in Nigeria will be enhanced.

ii. Shareholders and other users of financial statements will equally find this study useful. This is due to the fact that any effort that will lead to improvement in the independence of the external auditors and the usefulness of their reports is of great importance to the interest of users of financial statements.

iii. Academicians and students of accounting and other allied courses in tertiary institutions in Nigeria will benefit from this study. This is because this study will enable them (at least to some extent) to know the gap between theory and practice in terms of auditors' independence and the usefulness of their reports.

iv. The research will also be beneficial to the researcher. This is because the study will expose the researcher to so many related areas in the course of carrying out his research. This will enhance the researcher's experience, knowledge and understanding of the auditors' independence and reporting problems in Nigeria.

v. Finally, the research will contribute to knowledge and serve as a secondary document for any other researcher in a related area.

1.7 DEFINITION/EXPLANATION OF KEY TERMS

ACCOUNTING

Accounting is the recording, classifying, and summarizing of economic events in a logical manner for the purpose of providing financial information for decision making. The function of accounting is to provide certain types of quantitative information that management and others can use to make decisions.

Specifically, accounting is, the process of identifying, measuring, and communicating economic information to permit informed judgements and decisions by users of the information.

AUDIT

An audit is the independent examination of, and expression of opinion on, the financial statements of an enterprise by an appointed auditor in pursuance of that appointment and in compliance with any relevant statutory obligation.

AUDITOR

An Auditor is a qualified accountant who examines the financial records of an individual or company and signs an opinion about them.

AUDITING

Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users.

ASSERTION

Assertion is a representation or declaration, typically made by the management of an entity. In other words, assertions are representations of management that are communicated, explicitly or implicitly, by the financial statements.

ATTESTATION

Attestation is defined as one in which, a practitioner is engaged to issue or does issue a written communication that expresses a conclusion about the

reliability of a written assertion that is the responsibility of another party. In other words, attestation is to provide assurance as to whether information is presented in accordance with appropriate criteria. That is, to bear witness as to its reliability and fairness.

INVESTIGATION

Investigation is an act of examining the affairs of an organization for some special purpose.

In other words, an investigation is undertaken with a view to obtaining information of a special nature, usually on behalf of a particular person or group of persons. The general scope and objective of investigation and the degree of certainty required on matters to be reported upon are agreed in advance with the parties to whom the report is to be presented and this agreement is basic to the investigator's conduct of work and responsibilities entailed.

AUDITORS' INDEPENDENCE

Independence in auditing means taking an unbiased viewpoint in the performance of audit tests, the evaluation of the results, and the issuance of the audit report.

In other words, it is an attitude of mind which does not allow the viewpoints and conclusions of its possessor to become reliant on or subordinate to the influence and pressures of conflicting interests. The auditor must maintain a continual awareness of these influences and pressures in order to maintain his objectivity and impartiality in all aspects of his work.

AUDIT REPORT

The means by which the company auditor communicates the results of his work to the shareholders particularly and report users generally, is the audit report that he presents to them.

It is also an expression of personal belief in the quality of certain informational propositions, which the auditor has arrived at through a careful and extensive

examination and judgement of accounting data collection and measurement processes, many of which are dependent on the personal judgements and opinions of company management and staff.

CREDIBILITY

Credibility in this context, means that the financial statements can be believed. That is, they can be relied upon by outsiders, such as stockholders, creditors, government, and other interested third parties.

1.8 PLAN OF THE STUDY

This thesis is divided into five chapters. Chapter one is the introductory chapter in which the problem is stated and also the objectives, scope and the significance of the study. In addition, the research questions and definition of key terms are given in this chapter. In chapter two the literature relating to the assessment of auditors' independence and audit reports in Nigeria are reviewed. Chapter three describes the research methodology. The chapter highlights on the research methods adopted and the reasons for so doing. Chapter four is data presentation and analysis. Here, the data collected are analyzed in terms of the broader objectives of the study. The last chapter, that is chapter five, summarizes the results of the study. Conclusion, Limitations, Recommendations and Suggestions for areas of further research are also included.

CHAPTER TWO
LITERATURE REVIEW

2.1 HISTORICAL BACKGROUND OF AUDITING

According to Bigg (1969:1) and Woolf (1997:1), the practice of auditing had its origin in the necessity for the Institution of some system of check upon persons whose business it was to record the receipt and disbursement of money on behalf of others. In the early stages of civilization the methods of account were so crude, and the number of transactions to be recorded so small, that each individual was no doubt able to check for himself all his transactions, but as soon as the ancient States and Empires acquired the coherent organization, systems of check were applied to their public accounts, as evidenced by extant records. The ancient Egyptians, the Greeks, and the Romans, all utilized systems of check and counter-check as between the various financial officials.

They further stated that the ancient records of auditing were confined principally to public accounts. But there was clear indication that from an early date it was customary for an audit of the accounts of manors and estates to be performed. The person whose duty it was to make such an examination of accounts became known as the auditor, the word being derived from the Latin word, “audire”, which means “he hears”. Originally, the accounting parties were required to attend before the auditor who heard their accounts by having them called out by those who had compiled them to the auditor who was in authority.

According to them, it was not until the fifteenth century that the great impetus given to trade and commerce generally by the renaissance in Italy led to the evolution of a system of accounts which was capable of recording completely all kinds of mercantile transactions. The principles of double entry were first published in 1494 at Venice by Luca Pacioli, although the system had been more or less utilized during the preceding century. It thus became possible to record not only cash transactions, but all transactions involving matters of account, and the duties of the auditor correspondingly increased.

The increase in volume of trading operations, necessitating the use of more capital than was at the disposal of the average trader induced him to combine in partnership with others for the purpose of obtaining the requisite funds, and this tendency was a potent factor in the evolution of a more perfect system of accounts.

In the same way, no doubt, it had a material effect on the practice of auditing. But the audit of business accounts did not become common until the nineteenth century. The enormous increase in trade in that period, which was fostered by the discovery of steam power and by mechanical inventions generally, led to the formation of numerous joint stock companies, and other corporate undertakings, involving the use of large sums of capital under the management of a few individuals. Under these conditions, the advantages to be obtained from utilizing the services of auditors became apparent to the commercial public generally, and a great increase in the practice of auditing resulted.

At the present day, it forms the most important part of a professional accountants' practice.

The nature of every auditing exercise as opined by Bigg (1969:2) will depend upon the individual circumstances of each case, and must be decided by the exercise of the auditor's judgement. It is sufficient here to say that whatever the extent of the examination, it must be such as will satisfy the auditor, having regard to whether he is acting under the direct instructions of his clients or under statute.

The objective of the audit, therefore, as stated by Cooper, (1975:1) is to, "enable the auditor to report on the truth and fairness of the financial position shown by the balance sheet and of the profit or loss shown by the profit and loss account. The auditor is required to state unequivocally in his audit report whether or not, in his opinion, the accounts show a true and fair view. Where he cannot give an affirmative opinion in this respect he must, of necessity, qualify his report

in such a way as to show quite clearly why he considers that a true and fair view is not presented and, where applicable, in what respects and to what extent he considers the accounts to be misstated."

Dunn, (1996:19) added that the objective of an audit is aimed at enhancing "the credibility of the financial statements by providing reasonable assurance from an independent source that they present a true and fair view".

The reason why there is a need for an audit has been identified by Millichamp, (1993:1). He stated that, "the problem which has always existed when managers report to owners is; can the owners believe the report? The report may:

a) (contain errors

b) (not disclose fraud

c) (be inadvertently misleading

d) (be deliberately misleading

e) (fail to disclose relevant information.

The solution to this problem of 'credibility' in reports and accounts lies in appointing an independent person called an auditor to investigate the report and report on his findings".

2.2 DEVELOPMENT OF AUDITING IN NIGERIA

"The history of the audit profession in Nigeria spans some forty-nine years. It was in 1951 when the firm of Cooper brothers & Co. (now Coopers & Lybrand) did feasibility studies for a jute and Cotton Mill at Onitsha. Then, in 1952, ECN (now NEPA) approached Cooper Brothers to ask for help in the preparation of its first annual accounts. Thus started the relationship between Auditing and Economic development of Nigeria.

The early accountants/auditors in Nigeria were mainly Britons. The first indigenous firm of Akintola Williams & Co. Came on the scene in May 1952. Since then the audit firm of Akintola Williams & Co. had contributed to our economic development by serving on the Gill Job Evaluation and Regrading

Committee (1970/71) and in 1974/75, the firm was chairman of Williams & Williams Salary Review Committee to correct anomalies in the Udoji salary awards" Edun (1995:130).

Also, according to Osisioma (2001:7), in Nigeria, the University of Nigeria, Nsukka was the first to offer accounting as a degree course in 1960. Today, practically every University and Polytechnic in the country, offers degree and diploma courses in accountancy.

He further stated that the history of accountancy profession in Nigeria is closely linked with our colonial heritage as a commercial and administrative outpost of the British government. In southern Nigeria, increasing contacts between British merchants of the Royal Niger Company and the natives, had given rise to a measure of application of British government fiscal policy measures in the area now called Nigeria. Between 1890 and 1914, these increased trading and administrative activities had led to the introduction of British coinage, the establishment of British banks, first, the Bank of British Bank of Nigerian and the transplanting of British system of bookkeeping to Nigeria. These business and commercial contacts led to the emergence of a crop of indigenous business men. Such firms as the United Africa company, UAC, John Holt, of AO and SCOA established in Nigeria, and brought with them, advanced European accounting systems. The retailed accounting records occasioned by this emerging economic trend, followed the pattern transplanted from Europe.

The first indigenous Nigerian to qualify as a professional accountant, as he pointed out, is reputed to be Akintola Williams, who qualified in 1949 under the Institute of Chartered Accountants of England and Wales (ICAEW). He rightly earned for himself through disciplined practice over the years, the epithet of "the doyen of Accountancy Profession in Nigeria". One of the early professionals, was one J.O. Famodu, who as early as January 1958, had been listed in the journal of the then society of commercial Accountants, as a qualified accountant. On September 17, 1960, a handful of Nigerian professionals,

numbering 14 in all, who had also qualified in Britain, got together at the Ikoyi residence off. C.O. Coker,, to establish the Association of Accountants in Nigeria (AAN). The aims of the AAN were to institute better training arrangements for accountants in Nigeria, to promote accountancy as a profession, and to see to the welfare of its members.

On September 28, 1965, a parliamentary charter was granted to the AAN, via the institute of Chartered Accountants of Nigeria (ICAN)Act No.15 of 1965. The Act empowered the ICAN to:

i) (Determine the standard of knowledge and skill to be attained by persons seeking to become members of the accounting profession, and raising those standards from time to time, as circumstances may require.

ii) (Secure in accordance with the provisions of the Act, the establishment and maintenance of register of Fellows, Associates and Registered Accountants, entitled to practice as accountants and auditors in Nigeria and to publish, from time to time, the list of those persons.

iii) (Perform through the council of the Institute, the functions conferred on it by the Act.

The Act made it an offence for anyone who was not a member of the Institute to engage in public practice of accountancy in Nigeria. For a while, the ICAN operated merely as a Nigerian clearing house for the purpose of admitting professional accountants who had qualified abroad.

The period over which the ICAN held sway as the lone champion, recorded some pluses. It witnessed the formation of the Nigerian Accounting Standards Board, which was established on September 9, 1982 to regulate standards and practice in the profession, ICAN played a pioneering role in its inhumation though the Board turned out to be a mere copy cat of extant standards put together by foreign bodies. Further more, it was during this period that the companies law of 1968 was promulgated, with the pride of place given to accounting professional practice by the law.

However, professional practice still fell far short of the ideal. Ejiofor (1987) captures the situation in these words:" ICAN was established in 1965. For five years after that, not one Nigerian was admitted into ICAN, through its examination. In the next five years, only eleven Nigerians were admitted. In other words, in the first ten years of its existence only eleven Nigerians passed its final examinations. And yet the years from 1960 to 1980 might go down in Nigerian history as the time when the country passed through the greatest amount of developmental transformation. These were the decades of independence, of the oil boom, the military regime, the civil war, the indigenization exercises, the creation of states, and the change from parliamentary to the presidential system. These were the decades of the establishment of the first indigenous Universities, the UPE, and the proliferation of educational institutions. The latter half of this period was the one described as the decade of employment explosion. While the entire country was moving at supersonic speed; the ICAN was moving at a snail's speed, all in the name of standards."

With its negative attitude towards a University based business education by refusing to recognize, as a qualification for membership, degrees awarded by the Universities, Osisioma continued, the ICAN created the impression of being an economic organization whose sole objective was to maximize their corporate value and the income of their members.

The training programme of ICAN has two main plants:

(i) Professional Examinations in three tiers - foundation, Intermediate and Professional levels. No attempt was made to prepare candidates for these examinations. Thus, with time, the examinations earned the dubious reputation of being tough and difficult. Holders of WASC/GCE were subjected to the annual ritual of taking examinations - for some, in perpetuity. Today, there are 'distinguished' fellows of the Institute (FCA) who became professional accountants after 10-15 years of repeated attempts at these examinations.

(ii) An Apprenticeship Training Programme which attaches would - be accountants as articled clerks to professionals in practice. The attraction of this practice was that it provided cheap labour for professionals in practice, since the articled clerks were paid mere peanuts, "a living wage could only be earned on qualification".

This system of Training by examination and Apprenticeship, he said, is an obvious importation from colonial Britain, arising from our historical past. It however, raises serious questions. How imaginative is a training programme which began in Europe four centures ago, and which has hardly changed in structure and basic content over the intervening period? How suitable is such a programme for a developing country like Nigeria which has less than five decades of history of professional practice? How sensible is it for accounting bodies to claim that their examinations are tough and tasking, when these bodies have not taken adequate steps to prepare their professional students for those examinations? Is "training by examination" ideal for a society such as ours, or should we rather seek an executive development programme that will elevate the accountancy profession to the status of the highly respected professions of medicine, Law, Engineering and Architecture?

Apprenticeship is an on-the-job method of training, employed in small crafts, for the inculcation of specific skills in operatives. Articleship as employed by ICAN is apprenticeship, where the apprentice is bound to a master, to learn the basic skill of a craft or trade. This in effect reduces accountancy to a small craft or trade. It is important to add that most professional bodies today, started in this way, but have developed well beyond mere articleship and apprenticeship.

Even more fundamentally, should professionals be trained or educated? Should the training of accountants be left to "street hawkers" and every imaginable tuition house, whose only claim to educating their subjects, is the fact that they have prepared question and Answer packs? Which other professional body is "left out in the street"? Are there similar bodies "hawking" medical,

legal and engineering qualifications? Why should the profession allow "carpet crossing" at the very peak, where tired practitioners from other disciplines cross over with ease into accountancy profession?

Again, Ejiofor provides a succint appraisal of this period in our professional history: "it is becoming easier for a camel to pass through the eye of a needle than for a young Nigerian to pass the finals of some of our business professional examination. It becomes difficult for some of our professionals to exonerate themselves from the charges of creating an artificial scarcity of executive capacity, hoarding educational resources and reaping supernormal profits like reviled, unscrupulous businessmen. To erect walls round our professions without providing ladders, and to surround certificates with moats without providing draw bridges is to undermine the nation's bid for economic independence."

It was against this background that a group of Nigerian professionals got together in 1979 to set up another national accountancy body.

Osisioma explained that in 1972, the Nigerian Accounting Teachers Association (NATA) was formed and was later inaugurated on March 16, 1974. It has since metamorphorsed into the Nigerian Accounting Association (NAA). The Association was formed with the objective of contributing through research and education, to the improvement of the accounting profession and accounting education in Nigeria. In the United States, the American counterpart of the NAA, has made a great impact on the profession in that country. Unfortunately, the NAA is yet to make the type of impact one would have expected of it. But then, the struggle continues.

On January 1, 1979, a number of concerned Nigerian citizens gathered at the Lagos home of one of their members, with the burden of turning around the fortunes of the accountancy profession in Nigeria. This move was to lead to the formation of the Association of National Accountants of Nigeria, (ANAN). The ANAN Bill, incorporating the law to establish the professional body, was sent to

the National Assembly. Inspite of determined opposition by the ICAN, the Education committee of the House of Representatives invited both bodies to debate the merits and demerits of the Bill. On September 8, 1982, at precisely 11:50 a.m., the ANAN Bill was passed with overwhelming majority by the House of Representatives. The Bill went on to the Senate, where it passed through its First and Second Readings. It was still at the committee stage in Senate, when the military putsch of December, 1983 stopped it in its tracks. It was not until August 1993, that the Military Administration under General Ibrahim Badamasi Babangida (Rtd.), GCFR, FNCA, finally granted ANAN its charter in the form of Decree No.76 of 1993.

Thus, he continued, ANAN was established in 1979, registered in 1983 under Land Perpetual Succession Act, and Chartered by Act (formerly Decree) No.76 of 1993. It was charged with the general duty of:

a) (Advancing the science of accountancy in Nigeria.

b) (determining the standards of knowledge and still, to be attained by persons seeking to become registered members of the profession, and reviewing those standards, from time to time as circumstances may require.

c) (Promoting the highest standard of competence, practice and conduct among members of the profession.

d) (Securing the establishment and maintenance of register of members of the profession and the publication, from time to time of lists of those persons.

e) (Doing such things as may advance and promote the advancement of the profession of accountancy in both the public and private sectors of the economy.

f) (Performing through the council, the functions conferred on it by the decree.

He added that the ANAN in pursuance of its statutorily imposed obligation, adopted a completely novel approach to the development of professional accountants. The association has prescribed:

i) (A four-year period of study in an NUC/NBTE accredited University/Polytechnic in Nigeria. Thus, those desiring to enter the profession in Nigera, must be holders of B.Sc./HND in Accountancy from accredited institutions in the country.

ii) (a one-year intensive professional training at the Nigerian College of Accountancy, Jos.

iii) (An Accountant-in-Training programme that exposes the student to some two-year practical training under a professional in practice.

Furthermore, he pointed out that the avowed aim of the founding fathers, is to put together, a training programme that is aimed at:

a) (Raising the status of the profession to a level of comparative dignity and esteem, with the other distinguished professions.

b) (Laying the groundwork for the development not just training of accounting professionals. This involves a broad foundation built upon higher education and the attainment of recognized qualifications from our Universities/Polytechnics.

c) (Building the highest standards of ethical conduct and integrity in our professionals. The acid test of true professionalism is commitment and dedication to right ethical behaviour, and diligent subscription to the highest standards of professional conduct.

d) (Defining acceptable standards of Professionalism and examining the candidates to ensure the attainment of the required standards.

2.3 THE CONCEPT OF AUDITORS' INDEPENDENCE: AN EXPLANATION

Auditors' independence simply indicates that the auditor should conduct himself or herself in such a manner that would enable him or her to perform his or her functions in the professional practice without any influence and partiality. In other words, the basis of his or her work should be his or her own personal conviction that is devoid of bias.

In respect of auditors' independence, Adams (1989:7)indicated that, "it is essentially an attitude of mind characterised by integrity and an objective approach to professional work."

Similarly, Flint(1988:64) observed that, "probity and strength of character are personal qualities that would enhance the independence of the auditor".

Dunn(1996:14) stated that, "Auditors should at all times be objective, expressing opinions which are free from influence, independent of the company and its directors, and unaffected by commercial conflict of interest".

Lee (1982:86) also put it that, "the company auditor, as in the case of any member of a reputable profession serving the Public, is in a position of complete independence from persons and situations which could cause his work and opinion to lack the objectivity, and thus the credibility, which is so necessary to the credibility of the annual accounting information he is attesting."

Furthermore, Millichamp (1993:47) stressed that, "an auditor's objectivity must be beyond question when conducting an audit. An auditor must always approach his work with integrity and objectivity. The approach must be in a spirit of independence of mind."

Dunn(1996:19) also said that, "it is vitally important that the auditor enjoys the shareholders' confidence. They will be unable to place any confidence in the audit report if they feel that its content has been influenced by the directors".

According to Dunn (1996:20), there are three main ways in which the auditors' independence can manifest itself:

(a) Programme Independence:

Obviously, the audit report will be of little value unless it is supported by a thorough investigation. A thorough investigation may not, however, be in the directors' best interests. If they wish to conceal something then they will wish to minimize the possibility of its discovery. Even if they have nothing to hide, the directors may wish to reduce the audit fee or publish the financial statements as

quickly after the year end as possible. If the auditors can be persuaded to curtail their enquiries then this could have beneficial effect on the cost or on the completion date of the audit.

The auditors must be free to approach the engagement in any manner which they see fit. This freedom is particularly important in the context of an ongoing relationship between an accounting firm and the company. The auditors approach must adapt as the client company grows and develops new activities. Furthermore, view auditing techniques are constantly being developed. It would not be acceptable for the directors to hinder the auditors in their choice of the basic strategy which they intend to take to the engagement.

(a) Investigative Independence:

Programming independence protects the auditors' ability to select the most appropriate strategy for their audit work. Investigative independence protects the manner in which they implement this strategy. The auditors must have free access to the documents and records of the company. Any questions about the company's business or the accounting treatment of its transactions must be answered.

Underlying the argument that the auditors should not be restricted in the collection of audit evidence is the idea that the audit should be conducted with the full cooperation of the company's management and staff. This is obviously in the shareholders' best interests. If the auditors have difficulty in obtaining the information which they require, the audit will become more expensive. Impeding the auditors could also act against the directors' interests in that it could create the impression that they have something to hide when their actions are disclosed in the audit report.

(c) Reporting Independence:

If the directors have been trying to mislead the shareholders by publishing accounting information which is incorrect or incomplete, they will certainly wish to prevent the auditors from making this public. This is when auditor's

independence becomes absolutely crucial. Most disagreements are likely to arise over subjective decisions such as the interpretation of an accounting standard or an estimate such as a provision for bad debts. If the auditors insist on disagreeing with the directors, there is no guarantee that their treatment will be popular with the shareholders. In the case of an estimate, they may also find that subsequent events prove them wrong. If, on the other hand, the auditors suppress their doubts, it is possible that their willingness to concede to the directors will never be discovered.

The auditors will often be tempted to follow the line of least resistance by simply complying with the directors on all but the most fundamental differences. By doing so, they will avoid the sanctions which could be imposed by the directors. They are, of course, risking the possibility of even more severe penalties if they are discovered, but this will not necessarily happen. This would, of course, be disastrous for the users of the financial statements. Audit reports would be incomplete or would be expressed in ambiguous language. There would be no point in having an audit under such circumstances.

It is also important to note that the degree of confidence held in the auditor's opinion, and in the annual financial statements he is attesting, by the shareholders and other users of the statements, varies directly with his ability physically and mentally to disregard and to dissociate himself from the client company and its management, beyond the limits of his audit engagement. In other words, the more independent the auditor is, the more confidence shareholders and other persons will have in the audited statements.

The need for auditor's independence, therefore, as pointed out by Lee (1982:88) arises out of what might be described as the "remoteness" gap which exists between the various report users and company management. The larger the company, the more the persons concerned are likely to become physically and mentally remote from one another. The auditor acts as a bridging point which helps to make management accountable to the shareholders particularly, and

other users generally, through its annually reported financial statements. It is vital to the strength of this bridging point that the auditor is not only independent in mind, but is also seen to be independent. The shareholders have a pressing need, in the majority of cases, for an objective and honest assessment and evaluation of the annual accounting information presented to them by management. If such an assessment is made, then they will be better prepared to use the information with confidence in their various investment activities. The same can also be said for anyone else making use of the statements. Consequently, user confidence in the information is closely related to the position of independence which the auditor adopts. The more independent he is, the greater is the probability of the shareholders and others having confidence in his work and opinion.

A major challenge facing the auditor in this respect is that he must not regard his independence solely in terms of benefitting shareholders. Until relatively recently, the latter group of report user was regarded as almost the sole beneficiary of the company audit function, and auditor's independence was conceived as being necessary to protect their interest in the audited information.

However, the recognition and acceptance by accountants of a much wider audience and readership for the annual company report has meant that independence is potentially as important to lenders, suppliers, bankers and employees as it is to shareholders. The auditor must therefore take this into account when conducting his audit.

From the above, it clearly implies that the nucleus of auditor's independence rest on his person in terms of his moral virtue. The accounting professional bodies all over Nigeria are seriously interested in the independence of their members in the course of performing their professional functions for their clients. Thus, in respect to auditors' independence, there are both statutory and accounting professional bodies provisions to strengthen it. In other words, Companies and Allied Matters Act (CAMA)(1990), and Institute of Chartered

Accountants of Nigeria (ICAN), and Association of National Accountants of Nigeria (ANAN) are very interested in ensuring that auditors' independence is guaranteed.

2.4 QUALIFICATION AND RELATED REQUISITES REQUIRED OF AN AUDITOR

Nweke et al (1997:7) pointed out that, "the Nigerian companies Act 1968 took a cue, and stipulated that only member of the Institute of Chartered Accountants of Nigeria (ICAN) could act as auditors in Nigeria. The companies and Allied Matters Act (CAMA), 1990, upheld this, but added a clause that members of any other accounting body recognised by the Federal Government can also act as auditors. Subsequently, the Federal Military Government accorded recognition to the Association of National Accountants of Nigeria, (ANAN) which, by implication of this clause, can also license its members to act as auditors".

Nweke et al (1997:25) further stated that, "being a member of a recognized professional body is not enough. Such members must necessarily obtain practicing licence from their professional body before practicing as auditors."

Companies and Allied Matters Act (1990:A157) stated clearly in section 358, the qualification of auditors as can be seen in the following subsections below:

subsection(1) said that, a person shall not be qualified for appointment as an auditor of a company for the purpose of this Decree, unless he is a member of a body of accountants in Nigeria established from time to time by an Act or Decree.

Subsection (2) also said that, none of the following persons shall be qualified for appointment as auditor of a company -

a) (An officer or servant of the company.

b) (A person who is a partner of or in the employment of an officer or servant of the company.

c) (A person or firm who or which offers to the company professional advise in a consultancy capacity in respect of secretarial, taxation or financial management.

d) (a body corporate;

and for this purpose an auditor of a company shall not be regarded as either an officer or a servant of it.

Subsection (3) indicated that, a person shall also not qualify for appointment as an auditor of a company if he is, under subsection(6) of this section, disqualified for appointment as auditor of any other body corporate which is that company's subsidiary or holding company or a subsidiary of that company's holding company; or would be so disqualified if the body corporate were a company.

Subsection (4); Notwithstanding subsections(1), (2) and (3) of this section, a firm is qualified for appointment as auditor of a company if, but only if, all the partners are qualified for appointment as auditors of it.

Subsection (5); No person shall act as auditor of a company at a time when he knows that he is disqualified for appointment to that office and if an auditor of a company to his knowledge becomes so disqualified during his term of office, he shall thereupon vacate his office and give notice in writing to the company that he has vacated it by reason of that disqualification.

Subsection (6) pointed out that, a person who acts as auditor in contravention of subsection (5), of this section or fails without reasonable excuse to give notice of vacating his office as required by that subsection, shall be guilty of an offence and liable to a fine of #500 and, for continued contravention, to a daily default fine of #50.

2.5 PROCEDURE FOR THE APPOINTMENT OF AN AUDITOR

Nweke et al (1997:26) posited that, "Appointment of first auditors is the prerogative of the directors. An auditor so appointed holds office till the conclusion of the first Annual General Meeting (AGM).

Subsequent auditors are appointed by the shareholders to hold office till the conclusion of the next AGM."

He next said that an incumbent auditor is deemed to be automatically re-appointed unless:

i) (He is no longer qualified.

ii) (Resolution appoints someone in his stead.

iii) (Resolution for his non-appointment is passed.

iv) (The auditor is unwilling to accept appointment.

He added that where casual vacancy occurs, that is, before the holding of the next AGM, the directors may appoint an auditor to fill the vacancy. Where, for any reason, neither the shareholders nor the directors are able to appoint an auditor, the corporate Affairs Commission will make an appointment.

Companies and Allied Matters Act (1990:A156) also stated the appointment of auditors in section 357 specifically as can be seen in the following subsections below:

Subsection (1): Every company shall at each annual general meeting appoint an auditor or auditors to audit the financial statements of the company, and to hold office from the conclusion of that, until the conclusion of the next, annual general meeting.

Subsection (2): At any annual general meeting a retiring auditor, however appointed, shall be re-appointed without any resolution being passed unless -

a) (He is not qualified for re-appointment.

b) (a resolution has been passed at that meeting appointing some other person instead of him or providing expressly that he shall not be re-appointed; or

c) (He has given the company notice in writing of his unwillingness to be re-appointed.

Provided that where notice is given of an intended resolution in place of a retiring auditor, and by reason of the death, incapacity or disqualification of that person or of all those persons, as the case may be, the resolution cannot be proceeded with, the retiring auditor shall not be automatically re-appointed by virtue of this subsection.

Subsection (3): where at an annual general meeting, no auditors are appointed or re-appointed, the directors may appoint a person to fill the vacancy.

Subsection (4): The company shall, within one week of the power of the directors under subsection(3) of this section becoming exercisable, give notice of that fact to the commission; as required by this subsection, the company and every officer of the company who is in default shall be guilty of an offence and liable to a fine of #100 for every day during which the default continues.

Subsection(5): subject as hereinafter provided, the first auditors of a company may be appointed by the directors at any time before the company is entitled to commence business and auditors so appointed shall hold office until the conclusion of the next annual general meeting Provided that:

(a) The company may at a general meeting remove any such auditors and appoint in their place any other person who have been nominated for appointment by any member of the company and of whose nomination notice has been given to the members of the company not less than fourteen (14) days before the date of the meeting;

(b) If the directors fail to exercise their powers under this subsection, the company may, in a general meeting convened for that purpose a

the first auditors and thereupon the said powers of the directors shall cease.

Subsection (6) The directors may fill any caual vacancy in the office of auditor but while any such vacancy continues, the surviving or continuing auditor or auditors, if any, may act.

2.6 STAGES INVOLVED IN PERFORMING AN AUDIT ASSIGNMENT

According to Millichamp (1993:59), stages involved in performing an audit assignment can be stated as follows:

STAGE ONE: Background Research

Before commencing the audit proper the auditor must discover as much as possible about:

a) (The present condition and future prospects of the industry of which his client is a part.

b) (The past history and the present condition and future prospects of his client.

c) (The management and key personnel of his client and any recent changes.

d) (The products and manufacturing and trading processes of the client and any recent changes.

e) (The locations of all his client's operations.

f) (Any difficulties encountered by the client in manufacturing, trading, expanding, contracting, labour relations or financing.

g) (Any problems in accounting or in internal control systems.

h) (Any problems in accounting measurements e.g. in stock valuation or income recognition.

i) (any problems likely to lead to audit risk e.g. the difficulty of assessing the value of long term contracts in civil engineering business.

j) (Any problems likely to be met in carrying out the audit e.g. distant locations, tight timing problems, or large staff requirements on stocktaking attendance.

k) (Any changes in law or accounting practice which may affect the client.

This background research will be done by reading or interviewing:

xii) (previous years audit files.

xiii) (Audit staff who have been previously engaged on the audit.

xiv) (Published material concerning the client company and the industry.

xv) (The company's interim, internal and management accounts.

xvi) (the management of the enterprise.

In order to carry out a comprehensive and effective audit which is nevertheless efficient in terms of time spent, the modern auditor must focus his audit particularly on areas of particular difficulty and risk. In addition the evaluation of many areas in the financial statements, must entail a consideration of the whole circumstances of a client. As simple examples, the evaluation of the life of fixed assets liable to obsolescence or the value of the investment in a subsidiary company can only be effected by a knowledge of all factors having a bearing on the matter and many of these factors are external to the company. For these reasons, the modern audit requires a more detailed knowledge of the client company and its problems that was required in earlier years. This does make auditing more interesting and rewarding to the auditor and potentially also to the client.

STAGE TWO: Preparation of the Audit Plan

The auditor must plan his audit in some detail and the plan will involve preparation of a memorandum showing:

a) (an outline of the audit work to be done on each area of the client's systems and financial statements.

b) (The staff who will do the work.

c) (The location of the audit.

d) (The timing of the work to be done.

e) (A budget of time and costs.

The plan must be made to fit in with the client's timing requirement and with the client's ability to produce necessary analyses and summaries.

STAGE THREE: Accounting System Review

The auditor must:

a) (Ascertain by asking questions.

b) (Record on paper.

c) (Corroborate his record (confirm that the record is correct).

d) (Review for adequacy and for planning of tests.

e) (Test to determine that it always works as it is supposed to.

f) (Evaluate.

g) (Form a conclusion on the adequacy of the client's system for documenting and recording the transactions, assets and liabilities of the client in the books of account and other records. This is because:

(i) The companies Act requires the auditor to investigate and report on the company keeping of 'proper' accounting records.

(ii) The books of account and other records form the basis for the preparation of the financial statements.

STAGE FOUR: Internal Control System Review

The auditor should:

(a) Ascertain

(b) Record

(c) Corroborate the record

(d) Review

(e) Test

(f) Evaluate

(g) Form a conclusion on the adequacy of the client's system of internal control.

Internal controls here are simply procedures which ensure that all transactions, assets and liabilities are recorded correctly.

The objectives of the accounting systems and internal control systems investigations are to enable the auditor to have evidence that:

i) (The client maintains adequate books and records.

ii) (The client has a system of internal controls over the processing and recording of transactions such that all transactions are recorded correctly both numerically and in principle.

iii) (The books of account can be relied on to form a reliable basis for the preparation of the accounts.

Thus it is not necessary for the auditor to vouch every transaction recorded in the books. He will rely upon the system. If the system is satisfactory then he can substitute an investigation and test of the system for a detailed examination of every entry. This is both more economical and is more effective because only by examining the system can he have evidence that all the transactions are recorded.

In practice in some areas of the firm Internal controls may not exist or may be weak. In such cases the auditor cannot rely on the controls and other evidence needs to be sought for the completeness and accuracy of the record. The basic audit process today is for the auditor to consider the internal controls and if he wishes to place reliance on any of them, he must then ascertain and evaluate them and perform compliance tests on them. Compliance tests are simply those tests which seek to provide evidence that internal control procedures are being applied as prescribed.

STAGE FIVE: Substantive Testing

Millichamp (1993:61) said that substantive testing is defined in the auditing standards as; "those tests of transactions and balances, and other procedures such as analytical review, which seek to provide audit evidence as to the completeness, accuracy and validity of the information contained in the accounting records or in the financial statements".

We have seen that the reliability of the records is established by the auditor by him investigating the system. However, not all data can be verified in this indirect way and some transactions, balances and items in the financial statements must be verified with direct evidence.

In particular substantive tests are applied to:

(a) Transaction records where internal controls are weak or non-existent and where the system cannot be relied on.

(b) Unusual, extraordinary or one-off transactions and transactions which are not covered by a system. For example, if the client sold a part of his or her premises, this transaction is clearly rare and the client will not have a system for dealing with it and thus the auditor must seek evidence that the transaction was fully and accurately recorded and was carried out with proper authority.

(c) All assets and liabilities at the balance sheet date. For some assets (e.g. debtors and creditors) the system will provide good audit evidence, but additional audit evidence is always sought.

In practice an auditor has to consider on grounds of effectiveness and cost whether to rely on systems controls or whether to carry out substantive tests in each area of the audit. In some areas sufficient evidence can be obtained by analytical review. In many areas a combination of internal control reliance, substantive testing and analytical review provides the necessary audit evidence.

STAGE SIX: Analytical Review Techniques

This is defined as; "the study of relationships between elements of financial information expected to conform to a predictable pattern based on the organization's experience and between financial and non-financial information. Information is compared with compatible information for a prior period or periods, with anticipated results and with information relating to similar organizations" (Millichamp 1993:61).

In general audit evidence is gained from internal control, from substantive tests and increasingly from analytical review.

For example, the wages item in the accounts of a company may be investigated firstly by analytical review. Supposing that:

(a) No problems had been encountered in the past in this area.

(b) The total payments were within 2% of budgets adjusted for output variation and global wage awards.

(c) The notes to the accounts and the accounts agreed.

(d) Inter-firm comparison indicated that gross wage payments were within 3% of mean wage costs of firms of this turnover.

The auditor now has valid evidence that wages are correctly stated within materiality limits. He or she may well feel that some substantive testing to supplement the analytical review may be desirable but that internal control investigation is unnecessary.

STAGE SEVEN: Analytical Review of Financial Statements

At the conclusion of the detailed work of the audit, when all the systems testing and substantive testing has been done, the auditor will have audit evidence that:

a) (Proper books of account have been kept which form a reliable basis for the reparation of the counts.

b) (The accounts have been properly drawn up from those books.

c) (All assets, liabilities and transactions, balances and items in the account have been confirmed indirectly by systems investigation and/or directly by substantive testing.

Nonetheless, the auditor will then subject the financial statements to an overall final analytical review to determine whether:

i) (Acceptable, consistent and appropriate accounting policies have been applied. For example, the accounts would not show a true and fair view if the depreciation policy had been changed from straight line to reducing balance without this being disclosed or the stock had been valued at marginal cost contrary to the requirements of SSAP 9.

ii) (All the information in the financial statements is compatible with all other information. For example, an industrial firm using straight line depreciation may have items of plant which have been fully depreciated. However, in determining product cost for valuing work in progress and finished goods, notional depreciation on fully depreciated plant may have been taken.

iii) (All items in the accounts are compatible with the auditor's knowledge of the enterprise and its circumstances. For example, the auditor may have read in the press that new processes have been invented in a client's industry which makes some of the client's plant obsolete.

iv) (There is adequate disclosure of all items requiring disclosure. Numerous disclosure requirements are in the companies Act and also some items may require special disclosure for proper understanding of the accounts. For example, if farm product sales have been changed from free market credit sales to a purchasing cooperative giving regular monthly cheques, then the change in the debtors/sales ratio may mislead readers unless the change is disclosed.

v) (The Accounting requirements of the companies Act and other regulations have been complied with.

vi) (Overall, whether the auditor has sufficient evidence to enable him to give an opinion on the truth and fairness of the Accounts.

STAGE EIGHT: Preparation and signing of the Report

The ultimate aim of an audit is the report by the auditor to his client. This is a formal statement giving:

(a) The name of the auditor.

(b) The name of the persons to whom the report is addressed (e.g. the members of a company client.)

(c) The financial statements being reported on (profit and Loss Account and Balance Sheet, etc.)

(d) A statement on whether the auditor has carried on his aduit in accordance with the auditing standards.

(e) The auditor's opinion viz whether in the auditor's opinion the account give a true and fair view.

(f) the auditor's opinion on whether the accounts comply with statute and/or other requirements.

Dunn (1996:130) also put it on a different way that stages in an audit can be stated as follows:

	INITIAL STAGES	INTERIM STAGES	FINAL STAGES
Auditor appointed.....	*		
Engagement accepted and defined in writing.....	*		
Audit planning commences.....	*		
Initial review of inherent risks.....	*		
Initial analytical review.....	*		
Initial review of accounting system.....		*	*
Operation of controls identified during initial review confirmed.....		*	*
Substantive testing.....			*
Review of evidence collected during testing.....			*
Review of truth and fairness of financial statements.....			*
Letter of representation.....			*
Management informed of internal control problems encountered during the audit.			

2.7 ISSUES INVOLVED IN THE RESIGNATION, RETIREMENT AND DISMISSAL OF AN AUDITOR.

Millichamp (1993:17) said that, "Auditors can resign, and there are two main reasons why they may wish to do so. These are:

(a) The obvious reasons : Ill health, the company have grown too large for a small audit firm, the fee is inadequate etc.

(b) Where the auditor concludes that because of fraud or other irregularity the accounts do not show a true and fair view and there is no immediate opportunity to report to members. He would be unable to report to members if the entity refused to issue its financial statments or at another stage in the year the auditor has considerable doubts about management's integrity".

Companies and Allied Matters Act (1990:A160) stated in section 365, that the resignation of auditors can be seen in the following subsections:

Subsection (1). An auditor of a company may resign his office by depositing a notice in writing to that effect at the company's registered office; and any such notice shall operate to bring his term of office to an end on the date of which the notice is deposited, or on such later date as may be specified in it.

Subsection (2). An auditor's notice of resignation shall not be effective unless it contains either:-

a) (A statement to the effect that there are no circumstances connected with his resignation which he considers should be brought to the notice of the members or creditors of the company; or

b) (A statement of any such circumstances as are mentioned above.

Subsection (3). Where a notice under this section is deposited at a company's registered office, the company shall within fourteen (14) days send a copy of the notice:-

(a) to the Commission; and

(b) If the notice contained a statement under subsection (2)(b) of this section, to every person who under section 344 of this Decree is entitled to be sent copies of the financial statements.

Subsection (4). The company or any person claiming to be aggrieved may, within fourteen (14) days of the receipt by the company of a notice containing a statement under subsection (2)(b) of this section, apply to the court for an order under subsection (5) of this section.

Subsection(5). If on such an application the court is satisfied that the auditor is using the notice to secure needless publicity for defamatory matter, it may, by order, direct that copies of the notice need not be sent out; and the court may further order the company's costs on the application to be paid in whole or in part by the auditor, notwithstanding that he is not a party to the application.

Subsection (6). The company shall, within fourteen(14) days of the court's decision, send to the persons mentioned in subsection (3) of this section:-

a) (If the court makes an order under subsection (5) of this section, a statement setting out the effect of the order.

b) (If not, a copy of the notice containing the statement under subsection (2)(b) of this section.

Subsection (7). If default is made in complying with the provisions of subsection (3) or (6) of this section, the company and every officer of it who is in default shall be guilty of an offence and liable to a daily default fine of #100.

Companies and Allied Matters Act, (1990:A159) in section 362, further clarified the removal of auditors in the following subsections as follows:

Subsection (1). A company may by ordinary resolution remove an auditor before the expiration of his term of office, notwithstanding anything in any agreement between it and him.

Subsection (2). Where a resolution removing an auditor is passed at a general meeting of a company, the company shall within fourteen (14) days give notice of that fact in the prescribed form to the commission and if a company

fails to give the notice required by this subsection, the company and every office of it who is in default shall be guilty of an offence and liable to a daily default fine of #100.

Subsection(3). Nothing in this section shall be taken as depriving a person removed under it of compensation or damages payable to him in respect of the termination of his appointment as auditor or of any appointment terminating with that as auditor.

Nweke (1997:28) concluded that, "this is often a contentious issue, because removal implies dismissal against the will of the auditor, and projects a malicious attempt to replace an independent auditor with a puppet who may easily succumb to manipulation". And this is why the Act of 1990 section 362 has tried to protect the auditor and the shareholders who might fall victims to such manipulation.

2.8 AUDITOR'S DUTIES, RIGHTS AND RESPONSIBILITIES

Companies and Allied Matters Act, (1990:A158) pointed out in section 360, auditors' duties, rights and responsibilities as can be seen in the following subsections:

Subsection (1). It shall be the duty of the company's auditors, in preparing their report to carry out such investigations as may enable them to form an opinion as to the following matters whether:-

(a) Proper accounting records have been kept by the company and proper returns adequate for their audit have been received from branches not visited by them.

(b) the company's balance sheet and (if not consolidated) its profit and loss account are in agreement with the accounting records and returns.

Subsection (2). If the auditors are of opinion that proper accounting records have not been received from branches not visited by them, or if the balance sheet and (if not consolidated) the profit and loss account are not in

agreement with the accounting records and returns, the auditors shall state that fact in their report.

Subsection (3). Every auditor of a company shall have a right of access at all time to the company's books, accounts and vouchers, and entitled to require from the company's office such information and explanations as he thinks necessary for the performance of the auditor's duties.

Subsection (4). If the requirements of part V and VI of schedule 3 and parts I to III of schedule 4 to this Decree are not complied with in the accounts, it shall be the auditors' duty to include in their report, so far as they are reasonably able to do so, a statement giving the required particulars.

Subsection (5). It shall be the auditors' duty to consider whether the information given in the directors' report for the year for which the accounts are prepared is consistent with those accounts; and if they are of opinion that it is not, they shall state that fact in their report.

Companies and Allied Matter Act (1990:A159) section 363, added as follows:

Subsection (1). A company's auditors shall be entitled to attend any general meeting of the company and to receive all notices of and other communications relating to any general meeting which a member of the company is entitled to receive and to be heard at any general meeting which they attend on any part of the business of the meeting which concerns them as auditors.

Subsection(2). An auditor of a company who has been removed shall be entitled to attend:

a) (The general meeting at which his term of office would otherwise have expired; and

b) (Any general meeting at which it is proposed to fill the vacancy caused by his removal; and to receive all notices of, and other communications relating to, any such meeting which any member of the company is entitled to receive,

and to be heard at any such meeting which he attends on any part of the business of the meeting which concerns him as former auditor of the company.

Nweke (1997:29) opined that, "the duty of an auditor is to express his professional opinion to the shareholders on the Report and Accounts prepared for them by the management.

The opinion he expresses must include the fact or not:

Whether proper books of accounts have been kept by the company.

Whether adequate returns have been received by branches not visited by them.

Whether the company's balance sheet and profit and loss account reflect a true and fair view of the company's transactions during the period, and is a true and fair representation of the underlying records kept by the company."

The company auditor, as a member of reputable profession, is capable of being held responsible, legally and ethically, for the conduct and quality of his work and opinion.

Lee (1982:103) suggested that auditors' responsibilities can be looked at in three main parts as follows:

(a) Legal Responsibility

That is, the contractual responsibility, contained in the provisions of the companies Acts 1948 to 1981, to the company and its shareholders, the common law responsibility to shareholders and, in certain restricted circumstances, to other report users.

(a) Ethical Responsibility

That is, the responsibility the auditor has to his profession and professional colleagues through his adherence to the written or unwritten code of professional conduct of the accountancy body of which he is a member, and which demands that he exercise integrity and honesty, as well as sufficient care and skill, in all aspects of his audit work.

(c) Moral responsibility

That is, the "social" responsibility the auditor should have to any person to whom he is not legally responsible, and who is interested in and relying on the nature and quality of his audit opinion.

2.9 AUDIT REPORT AND IT'S SIGNIFICANCE

Audit report can be best described as the final out put of auditor's work for a client. According to Dunn (1996:143), the audit report is intended to reassure the readers that the accounting statements are a credible source of information about the company. The shareholders will not be prepared to accept the auditor's opinion on the truth and fairness of the financial statements unless he has collected sufficient evidence to be reasonably certain that the figures have not been materially misstated.

Attwood (1986:20) also said that, "after the audit work is completed, the auditors report their findings to the cleint."

Adams (1989:355) expressed that auditor's reporting process marks a crucial stage in the relationship between the auditor and the client and/or third parties. He went further to add that if the audit opinion that the accounts represent a true and fair view is borne out by subsequent events then the annual audit becomes a matter of history, only to be referred to again when seeking guidance for the next year's audit programme. However, if the true and fair view transpires to be incorrect, if the company collapses some time after the year end or if major discrepancies are discovered after the clean audit opinion is delivered, then the audit in question becomes a matter for legal action and in-depth analysis.

Companies and Allied Matters Act, (1990:A157) in section 359, explained auditors' report in the following subsections:

Subsection (1). The auditors of a company shall make a report to its members on the accounts examined by them and on every balance sheet and profit and loss account, and on all group financial statements copies of which are

to be laid before the company in a general meeting during the auditors' tenure of office.

Subsection (2). The auditors' report which shall be countersigned by a legal Practitioner shall state the matters set out in schedule 6 to this Decree.

Subsection (3). In addition to the report made under subsection (1) of this section, the auditor shall in the case of a public company also make a report to an audit committee which shall be established by the public company.

Subsection(4). The audit committee referred to in subsection (3) of this section, shall consist of an equal number of directors and representatives of the shareholders of the company (subject to a maximum number of six members) and shall examine the auditors' report and make recommendations thereon to the annual general meeting as it may think fit.

Provided however, that such member of the audit committee shall not be entitled to remuneration and shall be subject to re-election annually.

Subsection (5). Any member may nominate a shareholder as a member of the audit committee by giving notice in writing of such nomination to the Secretary of the company at least 21 days before the annual general meeting.

Subsection (6). Subject to such other additional functions and powers that the company's articles of association may stipulate, the objectives and functions of the audit committee shall be to:-

a) (ascertain whether the accounting and reporting policies of the company are in accordance with legal requirements and agreed ethical practices.

b) (Review the scope and planning of audit requirements.

c) (Review the findings on management matters in conjunction with the external auditor and departmental responses thereon.

d) (Keep under review the effectiveness of the company's system of accounting and internal control.

e) (Make recommendations to the board in regard to the appointment, removal and remuneration of the external auditors of the company.

f) (Authorize the internal auditor to carry out investigations into any activities of the company which may be of interest or concern to the committee.

Okolo (1987:214) also opined that, "the audit report is the final product of any audit exercise. The form of the report will depend on the nature of the audit."

Categories of audit reports can be seen as follows:

Pany (1994:42) indicated that an unqualified opinion denotes that the audit was adequate in scope and that the financial statements present fairly the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. Under these circumstances, the auditors are taking no exceptions and inserting no qualifications in the report.

An unqualified opinion is the type of report the client wants and also the type auditors prefer to issue. In some audits, however, the circumstances do not permit the auditors to give their unqualified opinion on the financial statements. As alternatives to an unqualified opinion, auditors may issue a qualified opinion, and adverse opinion, or a disclaimer of opinion. In some situations, the auditors also include additional explanatory language in the report.

He continued that the auditors issue a qualified opinion on financial statements when there is some limitation on their audit, or when one or more items in the financial statements are not presented in accordance with generally accepted accounting principles. The limitation or exception must be significant but not so material as to over shadow an overall opinion on the financial statements.

Lee(1982:54) stated that there are four types of qualification, each depending on different circumstances:

(a) The auditor may be faced with financial statements on which he cannot form any opinion, either positive or negative. In this situation, he should disclaim an opinion and give his reasons for doing so. "Disclaimers" are made when the auditor has been unable to reach any sort of opinion due either to fundamental restrictions in the scope of his audit (for example, due to lack of

cooperation by the company's management or staff or to the complete lack of adequate evidence with which to judge the credibility of the accounting information); and/or to an inherent uncertainty with regard to the financial statements.

(b) In certain circumstances, the auditor may find that he is totally unable to give a positive opinion, due to the fundamental nature of the financial accounting information or process he has examined. In other words, the auditor may find that the accounting information does not satisfy the concepts of correspondence and objectivity, and that he can only give an "adverse" opinion which states that the financial statements do not give the required "true and fair view" of the company's profits and financial position. This would include major disagreements over the accounting policies or disclosures utilised in the financial statements.

(c) The auditor may be able to come to conclusion regarding the required "true and fair view" opinion, with the exception of a particular matter which he considers is not fundamental, and about which he is "uncertain". In these cases, the auditor would give a "subject to" opinion. That is, one in which he disclaims an opinion on the non-fundamental matter, and gives an unqualified one on the remainder of the financial statements.

(d) If the auditor finds much of the accounting information has been adequately measured and reported, he may issue an "except" opinion which states that he finds the information to be "true and fair" with the exception of certain items which are not considered fundamental, and which do not give a "true and fair view" (that is, the "disagrees" with the treatment of the "excepted" items).

The primary purpose of the auditor's report is to convey to the users of financial statements an independent opinion as to whether or not the accounts as a whole represent a thrue and fair view of the company's profits for the period under review and of its state of affairs as at the balance sheet date. Arens

(2000:43) added that reports are essential to audit and assurance engagements because they communicate the auditor's findings. Users of financial statements rely on the auditor's report to provide assurance on the company's financial statements. Attwood (1986:20) concluded that the fundamental point of the report is to state whether in the auditor's opinion the financial statements show a true and fair view of the profit and state of affairs of the business.

2.10 LIABILITIES OF AN AUDITOR

According to Millichamp (1993:374), Auditors perform audits and sign audit reports. These reports are the auditors' opinions on the truth and fairness etc. of financial statements. Auditors are known to be competent and honest. So if the auditors say financial statements show a tue and fair view, readers of the financial statements will have faith in them because they have faith in the auditors.

As their work is relied upon by others the auditors clearly have responsibility to do their work honestly and carefully.

Okolo(1987:180) also expressed that, "an auditor will incur liability under the common law if he is found negligent in the performance of his duty and the client suffers a loss as a result of such negligence.

Liability of auditor to clients as indicated by Attwood (1986:470) is often based on an alleged failure of the auditor to carry out a competent audit, thus resulting in financial loss to the client perhaps through a fraud which remains undiscovered.

Such a claim could be made in contract (failure to fulfil a contractual obligation) or in tort, but it would probably be made in contract because the position is likely to be more clear-cut as the contract would provide evidence of the obligations undertaken.

In addition to being sued by Clients, Arens (2000:119) stated that, "an auditor may be liable to third parties under common law. Third parties include actual and potential stockholders, vendors, bankers and other creditors,

employees, and customers. An auditor may be liable to third parties if a loss was incurred by the claimant due to reliance on misleading financial statements."

The auditor also has a civil liability for his negligence though Dunn (1996:56) suggested that it is not sufficient in itself to establish that an auditor has been negligent in order to obtain damages from him. According to him, two further conditions must be met:

a) (The auditor must have owed a duty of care to the plaintiff.

b) (The plaintiff must have suffered a loss as a result of the auditor's negligence.

Legally, Dunn (1996:55) pointed out that the auditor may be held liable and may be penalized for failing to apply reasonable care and skill. This could take the form of disciplinary action by a professional body, or civil, or even criminal, proceedings.

He next said that the auditor has a criminal liability, and could be held guilty of a criminal offence under the theft act 1968 if he aided or abetted management to publish false statements with intent to defraud shareholders or lenders. The auditor will be guilty under the financial services Act 1986 if, either knowingly or recklessly, he associates himself with an invitation to invest in a client company which is inaccurate or misleading.

The Federal Government of Nigeria (1990:A162) indicated in Companies and Allied Matters Act 1990 section 368, that auditors have liabilities for negligence as can be seen in the following subsections:

Subsection (1). A company's auditor shall in the performance of his duties, exercise all such care diligence and skill as is reasonably necessary in each particular circumstance.

Subsection (2). Where a company suffers loss or damage as a result of the failure of its auditor to discharge the fiduciary duty imposed on him by subsection (1) of this section, the auditor shall be liable for negligence and the directors may institute an action for negligence against him in the court.

Subsection (3). If the directors fail to institute an action against the auditor under subsection (2) of this section, any member may do so after the expiration of thirty days notice to the company of his intention to institute such action.

Williams (1974:305) stated that an auditor may become criminally liable for the commission during the course of his audit of various offences which under statute law constitute a crime. Most case of liability under this heading arise from errors in the performance of audit duties involving criminal neglect or, of course, actual fraud or conspiracy in which intention to do what is known to be illegal is an essential element described as criminal liability of auditor. Where, however, an auditor knows or ought to be aware that a Balance Sheet audited by him will be relied upon by third parties, for instance, Bankers, prospective Partners or investors, he must bear in mind his moral obligation to them and ensure that the information contained in the Balance Sheet is framed in clear and unambiguous language. Thus, if third parties are in fact misled by statements of an auditor, they may successfully take action against the auditor, if he ought to have been aware of their interests, even in the absence of any contract between auditor and third parties. An auditor who is fully aware that the Balance Sheet of the Company does not represent a true state of affairs, and who does not plainly draw attention to this fact in his report to the shareholders is guilty of misfeasance, that is, wilful breach of duty. A typical example is Union Defence Industries Corporation of Nigeria (Union DICON) salt Plc trades blamed with its auditors over a falsified financial report, evoking memories of the collapse of the Enron Corporation and Arthur Anderson case in the United States. The source of this sorry Predicament is the annual report of the Union Dicon Salt Plc for the year 2000. The company was discovered to have corroborated with the auditing firm its external auditors to have overstated its profit by #317.1 million. Facts which emanated after it declared a pre-tax profit of #244.38 million showed that the company actually made a loss of #104.83 million. The audit firm knowingly

pulled the company into a mess, because the auditors did not disclose to the shareholders that the company did not make any profit in year 2000 making them to approve a dividend to shareholders which could not be paid. This was not discovered until after the annual general meeting when some board members with accounting knowledge made the discovery, they approached the auditing firm who asked them to accept the report the way it was because according to them, other companies do like that.

This revelation, coming on the heels of Enron-Arthur Anderson debacle in the United States, has thrown many industry watchers off balance. They believe that there is something wrong with the accounting Practice Worldwide. In Nigeria, analysts believe that the bug may bite harder given the Nigerian's knack for over-indulgence in whatever he does.

To this end, many of the most celebrated corporate collapses of the last thirty years from railroads to dotcoms have their origins in the misstatement of reported revenues. Therefore, standard setters and auditors alike need to focus on the principles of revenue recognition and going concern concept not just when bull markets turn sour but at all times.

2.11 CONCLUSION

In conclusion, we can conclude that it is the intention of both legislative and professional pronouncements to ensure that the auditor performs his duties with an attitude of mind characterized by integrity and an impartial approach to professional work. An auditor in practice should not only be but must be seen in the performance of his duties, to be independent and free of financial or commercial involvement with or in the affairs of his clients.

Auditors' reports represent the sole authorized channel of communication between the auditor and the shareholders of the auditee company. The fundamental issue about the auditor's report, however, is whether it is meeting the expectations of the financial statements users or not.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 INTRODUCTION

The advent of large business organizations with the unique characteristic of joint ownership by many individuals has actually brought a new dimension to the world of business. Of a particular note, is the divorce of ownership from management. But with the possibility of making auditing at all levels adequate, effective and efficient enough by the introduction of auditing professional bodies in Nigeria, an ever expanding demand would be made on the auditing system in Nigeria, not only in terms of quantity but also in terms of the quality of auditing process and products. From now on, there will be a greater need for more reliable knowledge concerning auditors' independence than had hitherto been the case in Nigeria and above all there will be an ever increasing pressure for the relevancy of audit reports to be used at all levels of Nigerian economy. The issue here about the external auditor's report, however, is whether it is meeting the expectations of the users of financial statements. In other words, is the perception of the users of financial statements about auditor's report in conformity with that of the auditor?. And in particular, is external auditor really independent in the Nigerian environment?.

Appropriate research methodology has to be used to find answers to the above questions. This chapter deals with the research methodology used in conducting this study.

3.2 RESEARCH METHODS

Asika(1991:2) defined research as, "any organized enquiry that aims at providing information for solving identified problems".

Osuala(2001:1) stated that in the social sciences, the application of the term "research" is restricted to activities designed to promote the development of a science of behaviour.

Research therefore, can be conducted by using various methods as can be seen below.

a) Scientific Research Method

Osuala (2001:18) defined science as, "an organised body of knowledge as well as a method and system of deriving truth".

While Ndagi (1999:12) pointed out that scientific research could be defined as, "a systematic, controlled empirical and unbiased investigation of the hypothetical propositions about the presumed relationships between the variables that create a particular state of affairs".

(b) The Historical Research Method

According to Osuala (2001:162), historical research method may be considered as embracing the whole field of human past as broad as life itself, although the data must be viewed with historical perspective as part of the process of social development rather than as isolated attitudes, events, or facts.

Ndagi (1999:93) looked at the historical research method on the other side and said that historical research deals with determination, evaluation, and explanation of past events essentially for the purpose of gaining a better and clearer understanding of the present, and making a more reliable prediction of the future.

Historical research, therefore as he concludes, involves critical and objective methods of inquiry with generalizations made from organized knowledge.

(c) The Descriptive Research Method

Ndagi (1999:108) expressed that the descriptive research method is concerned with the collection of data for the purpose of describing and interpreting existing conditions prevailing practices, beliefs, attitudes, on-going process etc. However, the central purpose of descriptive research is not just the description of what is, but the discovery of meaning.

Osuala (2001:197) added that the descriptive research method is that research which specifies the nature of given phenomena. The specification can be simple or it can be complicated. Descriptive research gives a picture of a situation or a population. Any consideration of phenomena generally begins with a full understanding (description) of the phenomena. Accurate descriptions are imperative for making a wide range of policy decisions.

d) The Experimental Research Method

Ndagi(1999:123) stated that, "experimental research is a process that provides a systematic and logical procedure of identifying and evaluating the relationships between variables that create a particular state of affairs under controlled condition".

Osuala (2001:218) state that, "the purpose of experimentation is to derive verified functional relationships among phenomena under controlled conditions. More simply, the purpose of experimentation is to identify the conditions underlying the occurrence of a given phenomenon". From an operational point of view, he continued, it is a matter of varying the independent variables.

d) The Survey Research Method

According to Osuala (2001:253), survey research studies both large and mall populations by selecting and studying samples chosen from the populations to discover the relative incidence, distribution and interrelations of sociological and psychological variables. Surveys covered by this definition are often called sample surveys probably because survey research developed as a separate research activity, along with the development and improvement of sampling procedures.

He went on further to state that a fairly clear line of demarcation can be drawn between survey studies and historical studies on the basis of time. Historical research deals with the past, while survey research deals with the present. Surveys differ from experimental studies in purpose. Surveys are oriented toward the determination of the status of a given phenomenon rather

than toward the isolation of causative factors. Surveys differ from case studies in that surveys are generally based on large cross-sectional samples, while case studies are oriented to the more intensive and longitudinal study of a smaller sample and, like experimentation, attempt to isolate antecedents or causes of the phenomenon under investigation is made.

Generally, therefore, "Research Methods", as used in this context can simply be referred to as various ways of investigation process to arrive at dependable solutions to problems through the planned and systematic collection, analysis and interpretation of data which varies according to the nature of research to be carried out. Consequently, this research study is descriptive in nature. It is obvious that descriptive research seeks to establish certain existing facts about a given phenomenon. Thus, this particular research study seeks to establish some facts about auditors' independence as well as audit reports provided by the external auditors in Nigeria.

The survey Research Method will also be used in order to elicit necessary information for the research work. Appropriate methods of Data Collection to be used for this study will also be chosen and adopted.

3.3 METHODS OF DATA COLLECTION USED FOR THIS STUDY

There are so many methods or ways of collecting data for a research as can be seen below but any researcher can use one or any combination of the methods or ways of collecting information for a research.

The various methods for collecting data can be seen as follows:

(a) Observation

Observation is a very important primary tool of scientific research. As Goode and Hatt (1952:119) pointed out, "science begins with observation for its final validation".

Ndagi (1999:57) also said that, "observation is a direct means of studying the overt behaviour of people, and its most important advantage is that it is possible to record behaviour as it happens".

Osuala(2001:139) explained that, "this method entails sending observers to record what actually happens while it is happening".

Asika (1991:17) stated that observations are used in some research situations where the researcher can gather his data only by watching and recording information. Observation includes monitoring behavioural and non-behavioural activities and conditions of sample subjects.

(a) Interview

Interview, in research, Ndagi (1999:60 said, "is a technique used for collecting information from others in a face-to-face contact. It is used when a researcher wants to obtain a reliable and valid information in the form of verbal responses from respondents in order to confirm or reject hypotheses".

As a research method, Osuala (2001:255) stated that, "the interview is a conversation carried out with the definite aim of obtaining certain information. It is designed to gather valid and reliable information through the responses of the interviewee to a planned sequence of questions."

Asika(1991:15) explained that this is a survey method of research involving a person seeking the information called the interviewer and another giving the information, called the respondent. The interviewer armed with an interview schedule, meets the respondent, asks questions of the respondents and completes the interview schedule himself.

(a) Questionnaire

According to Ndagi (1999:64), this is a device for getting answers to questions by using a form which the respondent fills by himself.

In many ways he said, questionnaire is similar to interview because both interview and questionnaire attempt to get the feelings, beliefs, experiences, or activities of respondents. They also may involve formats which can be relatively structured depending on the situation.

Ndagi (1999:64) further suggested that there are two methods of presentation of questionnaires; namely, the direct contact and the mailed questionnaires.

In the case of direct contact, fewer bias responses or refusals occur when the researcher personally presents the questionnaire. This is because he can explain the purpose and significance of the study, explain points, answer questions, and motivate respondents to answer questions, and fully and truthfully, but it could be very expensive and time consuming. On the other hand, mailed questionnaires reach many people in widely scattered areas quickly and at relatively low cost if the postal system is efficient and reliable but the rate of response could be so low as to introduce biases that will render the obtained data almost useless.

Ndagi (1999:65) also suggested that there are three forms of questionnaires:

i) (Closed Form or Structured Questionnaire

These consist of prepared list of specific questions and a choice of possible answers. They are easy to administer and to fill out, they help to keep the respondent's mind fixed to the subject and facilitates the process of tabulation, analysis and scientific generalizations. But they do not reveal the respondent's motives (why he answers as he does?) and they do not always yield information of sufficient scope or depth, nor do they discriminate between fine shades of meaning.

(ii) Open Form of Questionnaire

This method gives the respondent an opportunity to reveal his motives or attitudes and to specify the background or the provisional conditions upon which

their answers are based. But when a respondent have no clues to guide his thinking, he may unintentionally omit important information or fail to note sufficient details. In addition, the work of analyzing and summarizing their many different, detailed and complex answers may be very difficult and time-consuming.

(iii) Pictorial Form of Questionnaire

Drawings or photographs are presented instead of written statements from which to choose answers. It is quite suitable for collecting data from children and illiterates.

(d) Reports

Osuala (2001:139) said that these methods, "may be based on observations or informal conservation. They are usually incomplete and biased, but in certain cases may be useful".

For the purpose of this study, data were collected by making use of questionnaire, personal interviews and reports.

Techniques of analyzing data will also be appropriately chosen and adopted for the study.

3.4 TECHNIQUES OF DATA ANALYSIS

In research, Asika(1991:110) defined data as, "quantitative information", while he defined analysis as, "the breaking down and ordering of the quantitative information gathered through research or some other means of data gathering. It also involves searching for trends and patterns of associations and relationships among these data or groups of them".

The techniques of analysis refers to those methods or ways which the researcher uses to extract meaning from the data collected. The data collected takes various forms depending upon the techniques used in gathering the data.

According to Nwana (1981:80), there are so many techniques that can be adapted by the researcher to reduce the array of information to such a size that can be easily comprehended by both the researcher and whoever will make use of the results later.

Some of the techniques used for organizing the data are the table, from the table, the bar-chart or bar graph and pie - diagram can be compiled. The frequency distribution, from which the frequency polygon and frequency curve can be developed.

Data after being organized in tabular form or frequency distribution, are analysed using any of the statistical tools such as percentage, transformations, measures of central tendency, measure of variability and correlation coefficient.

According to Asika (1991:126) statistical method of analysis such as tables, bar-charts, pie diagrams, modal class and conversion to proportions can be defined as, "the refinement and manipulation of data in order to prepare them for the application of logical inference."

To be specific, from all the techniques of data analysis described and listed above, the techniques of data analysis chosen and adopted by the researcher for this research study are the use of tables, frequency distribution and simple percentages.

Adequate research population will also be chosen for this research study.

3.5 RESEARCH POPULATION

According to Ndagi (1999:81), population is sometimes referred to as the universe and it is defined as the entire group whose characteristics are to be estimated. We can have population of persons such as students, geographic area such as residential areas, objects such as textbook or test items. Population could be indefinitely large, such as all the children past, present and future, or finite, such as primary six children attending a particular school on a given day.

Asika(1991:39) added that a population is made up of all conceivable elements, subjects or observations relating to a particular phenomenon of interest to the researcher. Subjects or elements are individual items that make up the population. They may be observed or physically counted. Every Nigerian is a subject in Nigerian population just as every company in Nigeria belongs to the population of all companies in Nigeria.

The research population of this research study consists of all audit firms, the public limited companies and the general public in Nigeria who can be described as users of financial information and interested parties.

In considering the research population of the research study, an audit firm is considered as one irrespective of the number of branches it has nation wide. For instance, the Akintola Williams Deloitte & Touche has so many branches in so many states of Nigeria, however, all those branches and their headquarters are treated as one firm.

Appropriate techniques of sampling and manageable sample size will also be chosen and adopted for this research study.

3.6 SAMPLING TECHNIQUES AND SAMPLE SIZE

According to Asika (1991:39), a sample is precisely a part of the population. The procedure for drawing samples from a population is known as sampling.

Ndagi (1999:82) opined that sample is defined as, "a limited number of elements selected from a population which is representative of that population."

Osuala (2001:114) stressed that, "sampling is taking any portion of a population or universe as representative of that population or universe." He added that several techniques have been devised for selecting samples that will be representative of the population. These include random sampling, stratified sampling, double sampling, systematic sampling and cluster sampling.

In the course of this research study therefore, specifically, the researcher used area sampling or cluster sampling technique as well as random sampling

technique because the research population is geographically distributed all over Nigeria. Therefore, Nigeria will be divided simply into two (2) geo-political zones for the ease of study. These two geo-political zones are Southern geo-political zone which is made up of seventeen (17) states and the Northern geo-political zone which is also made up of nineteen (19) states. Therefore, the chosen sample size of the researcher are southern zone and the Northern zone for the purpose of effective and efficient collection of data from the targeted respondents and the convenience of the study as well as adequate and proportionate representation of the total population.

(i) General Public

In considering the general public in Nigeria who can be described as users of financial information and interested parties which is consists of seven major user groups namely: the equity investor group, lenders or the loan creditor group, the employee group, the analyst group, the business contact group, the government and the public, the researcher chose fifteen (15) persons at random in every user group from each of the two (2) zones chosen. This means in the southern zone which is made up of seven(7) major user groups will be seven(7) x fifteen (15) people = 105 people. In the Northern zone which is also made up of seven (7) major user groups will be seven (7) x fifteen (15) people = 105 people. That is, the researcher's total sample size for the general public will be 105 people in the Southern zone plus(+) 105 people in the Northern zone = 210 people as sample size of the general public.

(ii Audit Firms

In the case of registered practicing audit firms, as at 31st December, 2000, the total number of registered practicing audit firms in Nigeria uses two hundred (200) excluding management consultants. This means the total sample size of the researcher for the registered practicing audit firms was taken to be fifteen percent (15%) of (x) two hundred (200) audit firms = Thirty(30) audit firms. The thirty(30) audit firms will further be divided by two to get the exact number of sample size of audit firms in each of the two zones. That is, 15 audit firms in each zone. Therefore, the researcher's sample size of audit firms for the southern zone is

fifteen (15) audit firms. At random, these fifteen (15) audit firms in the Southern zone were picked as follows:

1. Akintola Williams Deloitte & Touche
2. KPMG Audit
3. Z.O. Ososanya & Co.
4. Oyelami, Soetan, Adeleke & Co.
5. D.C. Ukah & Co.
6 D.O. Dafinone & Co.
7. Adetona Isichei & Co.
8. Coopers & Lybrand
9. Price Waterhouse Coopers
10 Temitayo Osinaike & Co.
11. BDO Balogun Badejo & Co.
12 Ernst & Young Osindero Oni
13 Duro Ogboye & Co.
14. Arthur Andersen
15. J.A.A. Adeniyi & Co.

The researcher's sample size of audit firms in the Northern Zone were also fifteen (15). At random, these fifteen(15) audit firms in the Northern zone were also picked as follows:

1. Mu'allahyidi & Co.
2. Aminu Ibrahim & Co.
3. Johnson, Abioye, Oladeinde & Co.
4. Pannell Awobo Yusufu & Co.
5. Oyediran, Faleye, Oke & Co.
6. Peat, Marwick, Ani, Ogunde & Co.
7. Pannel Fitzpatrick & Co.
8. Otunola Adebayo & Co.

9. Oladipo Dunmoye & Co.
10. Pannell Kerr Forster & Co.
11. Sulaimon & Co.
12. Sada Idris & Co.
13. Umar Hamid & Co.
14. Muhtari Dangana & Co.
15. Moses A. Ogidigo & Co.

3.7 JUSTIFICATION OF RESEARCH METHODS AND ANALYSIS TECHNIQUES USED.

The researcher is interested in the accurate assessment of independence of the external or statutory auditors and audit reports in Nigeria. Therefore, the survey research method was chosen by the researcher because survey research focuses on populations or the universe, the people, the facts of people, and their beliefs, opinions, attitudes, motivations and behaviours.

On the other hand, the choice of techniques of analyzing data collected by the researcher for the purpose of the study is determined by the nature of data as to precision and ease of manipulation. The researcher applied the use of tables, frequency distribution and simple percentages as techniques of data analysis, because they provide a convenient means of compiling data into a form for easy reference very frequently in a chronological order. These techniques assist to eliminate ambiguity and misinterpretation of findings. For the purpose of making important discoveries, the techniques facilitate the interpretation of existing conditions. In other words, these techniques are easy to compute and easily understood by the readers unlike other statistical tools which are too difficult and not easily understood by readers. The nature of the problems of the study, the design of the questionnaires and the responses also calls for these techniques of analysis. On the other hand, the use of tables will make data to be neatly arranged, facilitate easy understanding and it shows clearly the relationship between the variables. The use of frequency distribution also helps to capture the

absolute number of respondents that indicated a particular answer or opinion. The use of percentages will help the researcher to measure the relative ratios of respondents in respect to answers provided to a particular question. Besides, it is important that it has a point of origin as zero percent (0%) of respondents indicates that nobody identified with that opinion or response. Moreover, the use of

percentage techniques of analysis enhances the drawing of conclusion.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

For an auditor, independence of mind is an attribute highly prized by the society. Auditors are expected to take note of this fact while they perform their audit task. Therefore, in this chapter, every effort will be made to assess the extent to which auditors are independent in issuing their audit reports as practiced in Nigeria today; and to facilitate the understanding of the users of the financial information regarding Auditors' Independence and Audit Reports in Nigeria.

The questionnaire was designed and used to collect appropriate data from the research population; but generally combined to source information from External Auditors, Public Companies and members of the Public general. On the whole, three hundred(300) copies of questionnaires were distributed. Two hundred and seventy (270) were returned duly filled by the respondents. The remaining thirty(30) were not returned.

Additional information was obtained through personal interviews.

Therefore, as mentioned in chapter three, primary data was collected for the purpose of this study. However, it is very important to mention here that data on its own lack informational value, except when it is analyzed and interpreted. In this regard, this chapter is dedicated to the presentation, analysis and interpretation of the data collected.

In the pursuance of the above objective, the rest of this chapter would focus on the following:

(i) Performance of Audit function in Nigeria

(ii) Professional Issues, Societal and Related Factors that challenge the Audit Task in Nigeria

(iii) 'Auditors' Independence' as observed in Nigeria

(iv) Audit Reports Issued in Nigeria – An Evaluation

(v) Findings of the study.

4.2 PERFORMANCE OF AUDIT FUNCTION IN NIGERIA

TABLE 4.2. 1: The Distribution of Audit Firms according to their number of years in Practice.

Year in Practice	Frequency Distribution	Percentage
(a) Less than 5 years	5	17
(b) 5 to 10 years	10	33
(c) More than 10 years	15	50
Total	30	100

Source: Personal Field Survey, 2002.

From this table, it can be seen that the respondents, that is, audit firms are presented here as shown by question one (1) of the Questionnaire according to the length of their years of practice. Those whose years of service were less than five (5) years are 5 or 17% of the whole respondents. Whose years of service fell between five (5) and ten (10) years are 10 or 33%, whereas those respondents audit firms that have been in practice for more than ten (10) years are 15 or 50% of the whole sample. This means that a vast majority of the audit firms (83%) that were considered have been in the practice for more than five years.

TABLE 4.2.2: The level of performance of Audit Function in Nigeria.

Responses	Frequency Distribution	Percentage
(a) 1-20% poor	46	17
(b) 21-40% fair	96	36
(c) 41-60% Good	81	30
(d) 61-80% Very Good	38	14
(e) 81-100% Excellent	9	3
Total	270	100

Source: Personal Field Survey, 2002.

Question two (2) in the questionnaire was used to check how the level of performance of audit function would be rated in Nigeria. The answer to this question can be seen clearly from the above table. From this table, 46 or 17% of the respondents indicated that the level of performance of audit function in Nigeria is poor, 96 or 36% said that it is fair, 81 or 30% stated that it is good, 38 or 14% responded that it is very good, while 9 or 3% also indicated that it is excellent. This means that again a vast majority of the respondents (83%) indicated that the level of performance of audit function in Nigeria can be rated as fair and above that level in the positive direction.

On the other hand, the audit function is intended to verify the doubts arising about the quality of the financial accounting information which the law requires the company to present to its shareholders, debenture holders as well as many external interests. They are entitled to receive information based on which they can assess whether there has been any conflict of interest or not (for example, dividends being paid to shareholders to the detriment of lenders and suppliers). The intention is that, because the information is supported by an expert and independent opinion, it will be accepted and used with confidence. The structure of the company, with ownership often divorced from management, justifies this intention. In addition, there is a group of people who support the functional aspects of the audit, including the acquisition of suitable audit evidence, the relationship of auditing to the practice of financial accounting measurement and communication. Specifically, the audit function performed by external auditors in Nigeria in the course of audit include:

(i) the collection of sufficient competent and reliable evidential material available which should form the basis of their reports. In other words, it will allow the auditor to evidence and give an opinion on the credibility of the accounting information in the company's annual financial statements, and the auditor can collect and evaluate this material within a reasonable time and at a reasonable cost.

(ii) Establishing the fact that the accounting information in the client company's annual financial statements is free of major or fundamental fraud and error.

(iii) Establishing the fact that the client company employs the generally accepted and recognized accounting concepts and bases appropriate to the business of the company which, when used consistently, result in annually reported accounting information which satisfies the standards of truth and fairness to be reported on by the auditor.(iv) Issuing of audit reports (opinions). The first function (i.e., collection of sufficient, competent and reliable evidential material within a reasonable time and cost) is very important because an auditor who is not part of the management of the client company cannot pass judgement on the financial statements of such a client without obtaining sufficient evidence to back up his opinion. Besides, it is very important for the auditor to collect the evidence at reasonable time and cost as indicated by the respondents. This is because the audit has to be completed as soon after the end of the client company's accounting year in order to facilitate the communication of the audited accounting information to the shareholders without unnecessary delay. In addition, the auditor is expected to collect his evidence at reasonable cost because efficiency is one of the embodiments of his profession.

Moreover, the audit function of establishing the fact that the accounting information in the client company's financial statements is free of fundamental fraud and error is very important. This is because such responsibility is shouldered by the management of the company. Besides, the auditor is only expected to provide attestation as to the credibility of the financial statements. However, it is obvious that the auditor cannot completely ignore the issues of fraud and error most especially fundamental ones, as their existence would affect the quality of his opinion. Therefore, the primary objective of auditing is not to detect or prevent fraud and errors in a client firm. This implies that the auditor should not approach his audit function with the anticipation that fraud and error exist in the records of his client.

The audit function of establishing the fact that the client company employs the generally accepted and recognized accounting concepts and bases that are appropriate to its business or operation is of great consequence. This is because the standards of truth

and fairness can be validly measured on the basis of relevant generally acceptable accounting practices as well as the consistency of application of those practices by the client company.

Finally, the respondents indicated that at the end, auditors provide audit reports (opinions), which is usually the ultimate goal of an audit engagement. The auditor is usually expected to provide a report indicating whether or not the accounts of the client company represent a true and fair view of its profitability and financial position. The report aspect of the audit function is mostly viewed as the greatest as well as the basic function. It is the greatest because it is the product that every body is interested in. However, it is the basic function because all the underlying activities carried out to arrive at a stage of forming audit opinion take a lot of time. But the preparation of audit report (opinion) requires just a little time.

4.3 PROFESSIONAL ISSUES, SOCIETAL AND RELATED FACTORS THAT CHALLENGE THE AUDIT TASK IN NIGERIA.

TABLE 4.3.1: Shareholders' Practical Control Over Auditors' Appointment in Nigeria.

Responses	Frequency Distribution	Percentage
A. Very Good	0	0
B. Good	9	3
C. Fair	45	17
D. Poor	216	80
TOTAL	270	100

Source: Personal Field Survey, 2002.

From the table above, 9 or 3% of the respondents gave their views that shareholders have a good practical control over the appointment of auditors in Nigeria. However, 45 or 17% of the respondents stated that shareholders' practical control over the appointment of external auditors is just fair in Nigeria. Moreover, 216 or 80% of the respondents indicated that shareholders' practical control over external auditors' appointment in Nigeria is nothing but poor. This information implies that the benefits derived from the audit exercise by way of effective exercise of control by shareholders over the appointment of an auditor may be undermined.

REASONS FOR THE ANSWERS PROVIDED IN TABLE 4.3.1 ABOVE.

The respondents that said shareholders have a good control over auditors' appointment and those respondents that indicated a fair position believed that no matter what the appointment of the auditor must be approved by the shareholders at the annual general meeting of the company. However, those respondents who were 216 or 80% of the total respondents strongly argued that there is a wide gap between the statutory provision and practical reality in relation to the appointment of an auditor. They indicated that the appointment of an auditor in Nigeria, in practical terms, lies more in the hands of management rather than it being a complete responsibility of the shareholders as stated by Companies and Allied Matters Act 1990. They equally added that it is the management of the client company that gives the blessing of appointment to any auditor, which shareholders usually "rubber-stamp" or ratify at the annual general Meeting (AGM). The implication of this situation is that management of the client company would have an effective power of control over the auditor. Therefore, the independence of the auditor from management is mostly apparent rather than real. Consequently, the auditor may be found dancing to the tune of the management than to the other users of financial statements.

TABLE 4.3.2: Influence of shareholders on the fixing and payment of Auditors' fees.

Responses	Frequency Distribution	Percentage
A. Very Good	0	0
B. Good	9	3
C. Fair	45	17
D. Poor	216	80
TOTAL	270	100

Source: Personal Field Survey, 2002.

As it can be seen from this table, 9 or 3% of the respondents, 45 or 17% of the respondents and 216 or 80% of the respondents gave the views that the influence of shareholders on the fixing and payment of auditors' fees is good, fair and poor respectively. From the point of view of the majority of the respondents, the reality of

the situation is that the 'management' is in a position to exercise a lot of influence on the fixing and payment of auditors' fees as against the statutory provision that gives the power to the shareholders. Consequently, the management would be in a position to exert a lot of influence on the auditors. With this kind of development, all things being equal, the auditor must be a willing tool in the hands of management in order to protect its own interest.

TABLE 4.3.3: Incompetence as a reason why a client firm may Discontinue the service of an auditor.

Responses	Frequency Distribution	Percentage
A. YES	30	11
B. NO	240	89
TOTAL	270	100

Source: Personal field survey, 2002.

This table indicated that 30 or 11% of the respondents agreed, that 'incompetence' is a reason for discontinuing with the services of an auditor. 240 or 89% of the respondents obviously believed that there are other reasons for discontinuing with the services of an auditor. It may be inferred that apart from the disagreement between the client company and auditor in respect of audit fees, management may on the ground of covert and selfish reasons pressurize the shareholders to disengage the auditor. Since the auditors are very much aware of this development as pointed out in the table, many auditors would likely compromise their independence in order to buy the favour of the management.

TABLE 4.3.4: Existence of underground competition among audit firms in Nigeria.

Responses	Frequency Distribution	Percentage
A. YES	270	100

B. NO	0	0
TOTAL	270	100

Source: Personal Field survey, 2002.

From this table, there is unanimous agreement among the respondents that there is existence of underground competition among audit firms in Nigeria. This development is contrary to the professional ethics and expectations. With the existence of underground competition among the audit firms, there is every tendency for some audit firms to compromise their independence to the management of some existing and potential client companies in order to outsmart their fellow audit firms. Therefore, the interest of shareholders and other users of financial statements may be in danger.

TABLE 4.3.5: Possibility of parent and subsidiary Audit firms Acting in different Capacities for the same client in the same Accounting Period.

Responses	Frequency Distribution	Percentage
A. YES	270	100
B. NO	0	0
TOTAL	270	100

Source: Personal Field Survey, 2002.

The above table shows that 270 or 100% of the respondents indicated that it is possible for a parent and subsidiary audit firms to act in different capacities for the same client Company in the same accounting period. It is very important to know that both accounting professional bodies and statutory provision restrict an auditor from being engaged by a client company to perform audit function and any other function simultaneously during a given accounting period. However, a situation whereby a parent audit firm can act in the capacity of an auditor to a particular client while its subsidiary is allowed to act in another capacity for the same client could lead to a compromise of independence and objectivity on the part of the audit firms. This is because outside legal perspective, there is no dividing line between the interest of the parent firm and that of the subsidiary. Practically, the two firm are one. Therefore, a situation whereby the parent firm is the auditor and the subsidiary is the management

consultant to a given client Company implies that the parent firm is often asked to certify the outcome of its subsidiary's recommendations. Thus, it is obvious that the audit firm would carry out the audit function with the interest of its subsidiary in mind. With this development, the essence of independence and objectivity would be lost on the part of the audit firm.

TABLE 4.3.6: By Companies and Allied Matters Act (CAMA) 1990 Provision, statutory Auditor is only Responsible to the shareholders and not any other parties.

Responses	Frequency Distribution	Percentage
A. YES	260	96
B. NO	10	4
TOTAL	270	100

Source: Personal Field Survey, 2002.

This table shows that 10 or 4% of the respondents did not agree, while 260 or 96% of the respondents, agreed that statutory auditor is only responsible to the shareholders in accordance to the provision of Companies and Allied Matters Act, (CAMA) 1990. The fact is that statutory provision has spelt out clearly the legal responsibility of the auditor towards the shareholders. But the auditors responsibility to other parties is not clearly spelt out in CAMA 1990. But it is the view of the researcher that the interests of the other interested parties should also be of great concern towards achieving auditors' independence. This is because an auditor may choose to neglect his moral responsibility to the other parties who are

interested in the financial statements. This may cause his opinion to be biased towards the shareholders. Thus, an auditor is no more an impartial person.

TABLE 4.3.7: Corruption Syndrome in Nigeria may have Effect on Auditors' Independence and objectivity.

Responses	Frequency Distribution	Percentage
A. YES	189	70
B. NO	81	30
TOTAL	270	100

Source: Personal Field survey, 2002.

This table revealed that 189 or 70% of the respondents agreed that the corruption syndrome in Nigeria may have effect on the level of auditors independence and objectivity in carrying out their audit work as well, as their audit reports (opinions). However 81 or 30% of the respondents indicated otherwise. The former opinion may be strongly regarded as being valid. This is because it is a fact that environment has an influence on the behaviour of a man. An auditor in Nigeria is operating in an environment where corruption reigns supreme as well as inordinate desire for wealth. Given this fact, it would be very difficult for many auditors in Nigeria to live above board. In other words, the tendency for the auditors to compromise their independent approach to audit function for personal gains cannot be ruled out. Therefore, the fact that auditors' independence lies very heavily on his moral strength makes matter of his independence to be complex.

Specifically, professional issues, societal and related factors that challenge the audit task in Nigeria include:

i. **Undue dependence on an audit client.**

Public perception of independence may be put in jeopardy if the fees from any one client or group of connected clients exceed fifteen percent (15%) of gross practice income or ten percent (10%) in the case of listed or other public limited companies.

ii. **Family or other Personal relationships.**

It is desirable to avoid professional relationships where personal relationships exist, because this may constitute and serve as pressure groups to attack the auditors in the course of carrying out their professional audit duties. This kind of relationships will threaten the independence of auditors while performing their audit tasks. Examples of personal relationships include mutual business interests with members of the group comprising the client, the audit firm, officers or employees of the client, partners or members of staff of the audit firm as well as the family ties.

iii. **Beneficial interests in shares and other investments.**

In general, partners, their spouses, and minor children should not hold shares in or have other investments in client companies. An audit staff member should not be employed on an

audit if the staff member or some body connected with him has a beneficial interest in the audit client. The Articles of Association of some Companies require the auditor to have a qualifying shareholding. In such cases the minimum only should be held and the holding should be disclosed in the accounts.

iv. **Loans to and from Clients.**

Auditing practice or any one closely connected with it should not make loans to its clients nor receive loans from clients. The same applies to guarantees. Overdue fees may in some circumstances constitute a loan.

v. **Acceptance of goods and services.**

Goods and services should not be accepted by a practice or by any one closely connected with it unless the value of any benefit is modest. How modest is the value depends on the circumstances involved. Acceptance of undue hospitality poses also a similar threat. A bottle of wine at Christmas is acceptable but a weekend in London would probably not be accepted.

vi. **Actual or threatened litigation.**

Litigation or threatened litigation (for example, on auditor negligence) between a client company and an audit firm would mean the parties being placed in an adversarial situation which clearly undermines the auditors' independence and objectivity.

vii. **Influences Outside the practice.**

There is a risk of loss of independence and objectivity due to pressures from associated practices, bankers, solicitors, government or those introducing the business because they may insist on telling the auditor what to do first before any thing else.

viii. **Provision of other services.**

This is acceptable in principle but care must be taken so that auditors should not be carried away from their independence and objectivity.

ix. Auditors should not allow their judgement to be swayed by the receipt of a commission, fee or other reward from a third party as a result of advising a client to pursue one course rather

than another. In any such situation, the fact of and the amount of the commission and so on, should be disclosed in writing to the client.

4.4 'AUDITORS' INDEPENDENCE' AS OBSERVED IN NIGERIA.

Questions 12 and 13 were asked to find out the views of the respondents about auditors' independence in Nigeria as well as what they (respondents) think is the perception of the general public about auditors' independence in Nigeria. All the thirty (30) audit firms (respondents) indicated that accounting professional bodies and some statutory provisions are available to help strengthen the independence of auditors in Nigeria. However, the fact that the nucleus of auditors' independence rest on his person in terms of his moral virtue makes the measurement of auditors' independence in Nigeria and like elsewhere in the world, very difficult. However, they noted that since there have been no serious case of negligence established against any auditor in Nigeria, at least in the past immediate decade, then they believed that auditors in Nigeria are maintaining an acceptable degree of independence in the rendering of professional service to their clients. This argument, however, may not be accepted without making the observation that it is possible that victims of the auditors' professional failure may be ignorant of the remedial actions to take against the auditors.

In addition to the above, majority of the members of the general public (respondents) who are also known as the interested parties believed that many auditors in Nigeria are not independent of the managements of the companies they perform audit function for. This perspective, they added, is strengthened by the ugly development in the Nigerian banking industry in the 1990s. The respondents strongly believed that the situation is very unfortunate and it is not in the best interest of the accounting profession. While the managements of the public companies (respondents) defended themselves by saying that some of the auditors do not know what to do in their companies when called for to perform audit function in their companies until they are being told and directed on what to do before they will be able to know what to do in their companies.

4.5 AUDIT REPORTS ISSUED IN NIGERIA-AN EVALUATION.

Question 11 in the questionnaire was asked to find out specifically the forms of audit reports (opinions) that external auditors issued in Nigeria. In addition, question 16 asked whether external auditors have ever given qualified audit reports (opinions) on any client in the past ten years in Nigeria. All the respondents (30 or 100% of the external auditors) indicated that there are basically two forms of audit reports (opinions), namely standard unqualified audit reports (opinions) and qualified audit reports (opinions). In the case of standard audit reports (opinions), the respondents explained that it would be given if the accounts of the client reflect a true and fair view of its operation. Under this circumstance, the auditor is fully happy and satisfied with the accounts and relevant records of the client.

However, the respondents added that qualified audit reports (opinions) would be given under two situations; namely: condition of uncertainty, and condition of disagreement.

(a) **condition of uncertainty**: Under the condition of uncertainty, the auditor would give "subject to" opinion if the uncertainty is material but not fundamental or "disclaimer" of opinion if the uncertainty is fundamental. "Subject to" opinion is usually given as "subject to the foregoing, in our opinion the accounts show a true and fair view". "Disclaimer" of opinion is usually given as, "as a consequence of the foregoing, we are unable to form an opinion as to the truth and fairness of the accounts."

The reasons for the auditor uncertainty could be any one of the following points:

i. Failure to obtain in all the information and explanations the auditor believes to be necessary to his audit examination. Thus, preventing him from fully establishing the correspondence and objectivity of the information.

ii. Failure of company management to keep accurate and dependable accounting books and records; thus, providing an inadequate base for the measurement of the accounting information being attested.

iii. Dissatisfaction with the system of internal controls employed by the company, particularly in relation to the accounting weaknesses which could allow fraud or error to take place. In this type of situation, the auditor

would be uncertain about the accuracy and dependability of the accounting data he was examining.

iv. Dissatisfaction with the attitude or action adopted by company management in relation to the auditor's suspicion regarding the potential existence of fraud or error which is likely to be material to his opinion.

v. Being faced with situations which, although they affect the existing financial statements, have not yet reached a point at which the precise influence can be determined. For example, litigation.

(b) **Condition of disagreement.**

Furthermore, under the condition of disagreement, (i.e. between the auditor and management), the auditor would give "Except for" opinion if the disagreement is material but not fundamental or "Adverse opinion" if the disagreement is fundamental. "Except for" opinion is normally given as, "except for the foregoing, the accounts, in our opinion, show a true and fair view". "Adverse opinion" on the other hand is normally given as: "as a consequence of the foregoing, in our opinion, the accounts do not give a true and fair view".

The reasons for auditor disagreement can include the following:

i. Disagreement with the nature of the financial accounting concepts, bases and policies used by company management in the allocation and valuation of accounting data (particularly those made mandatory by the Companies and Allied Matters Act (CAMA) 1990 and the various statements of Standard Accounting Practice) because:

(a) They are not appropriate to the business of the company.

(b) They have not been consistently applied.

(c) They are not generally accepted by the accountancy profession.

(d) Or they are affected by a mixture of the above reasons.

ii. Disagreement with the disclosure of the accounting information in relation to either best accounting practice, the minimum disclosure provisions of the companies Acts, or the provisions contained in other relevant regulations.

From the above analysis, one can infer that auditor can be fully held responsible for a standard audit report (opinion) he give if it turns out to be false. However, his liability is only limited to the extent of assurance he provided under "subject to" opinion and "except for" opinion. Whereas, the auditor is not liable in any way to any one that uses a financial statements that he provides as a disclaimer of opinion or adverse opinion.

TABLE 4.5.1: Qualified Audit Reports (Opinions) or Adverse Opinion Provided or Given on any Clients' Financial Statements in the past Ten(10) Years by the Auditors.

Responses	Frequency Distribution	Percentage
A. YES	4	13
B. NO	26	87
TOTAL	30	100

Source: Personal Field Survey, 2002.

In addition to the above, the Table 4.5.1 clearly shows that 4 or 13% of the respondents only have indicated that they had one time or the other provided qualified audit reports (opinions) or adverse opinion about their clients' financial statements. However, 26 or 87% of the respondents indicated otherwise. This situation implies that qualified audit reports (opinions) or adverse opinions are hardly given by audit firms in Nigeria. Nonetheless, it is not certain whether the standard audit reports (opinions) enjoyed by the public companies in Nigeria is a true reflection of their performances or a matter of compromise on the part of the auditors.

Above all, it is very important to point it out that the phrase "true and fair view", used in audit reports (opinions) may not be easy to understand given the occurrence of certain circumstances. An example would enhance our understanding here. In the 1990s, the Nigerian banking industry witnessed an unprecedented case of distress. It was on record that none of the banks that suffered distress was given a qualified audit report (opinion) in respect of its immediate (at least) financial statements that preceeded its ill health and death. Then, one would wonder what was the true and fair view the financial statements might have presented. This issue is of serious concern to many people in Nigeria, most especially as no auditor was called upon to answer one question or the other.

TABLE 4.5.2: Unqualified Audit Reports (opinions) covers Efficiency, Future Prospects and Going Concern concept of a client company.

Responses	Frequency Distribution	Percentage
A. YES	0	0
B. NO	270	100
TOTAL	270	100

Source: Personal Field Survey, 2002.

From the above table, there was a general agreement among all the respondents that an unqualified audit report (opinion) does not cover the efficiency, future prospects and going concern concept of a client company. Against this background, one may be tempted to ask the question: Of what relevance is unqualified audit report (opinion) to both existing and potential investors if it does not cover efficiency, future prospects and going concern concept of the client company? Since investors usually show interest in the financial statements prepared by management of a company, for the single reason of making investment decision, one may conclude that the present purpose of audit report (opinion) is not adequately compatible with the interest of investors.

TABLE 4.5.3: General Public's understanding of Audit Reports

(opinions)

Responses	Frequency Distribution	Percentage
A. Very good	0	0
B. Good	0	0
C. Fair	117	43
D. Poor	153	57
TOTAL	270	100

Source: Personal Field Survey, 2002.

It is obvious from the above table that 117 or 43% of the respondents stated that the general public has a fair understanding of audit report (opinion). Moreover, 153 or 57% of the respondents indicated that the general public has a poor understanding of audit report (opinion). On the whole, it is very clear that all the respondents believed that the general public does not

have very good or good understanding of audit report (opinion). The implication of this situation is that there may be a lot of expectation gap between the auditor and the general public. In other words, the real purpose of audit report (opinion) may be misconceived by the members of the public.

4.6 FINDINGS OF THE STUDY

Having analyzed the primary and other sources of data collected, the researcher has been able to observe some key issues. The findings of the study among other things include the following:

(a) First and foremost, it is discovered in the course of the study that shareholders' power to appoint and fix the fee of external auditor is not actually exercised by them. Rather it is the management that exercise that power of appointing and fixing the fee of the auditor and the shareholders will just ratify or "rubber –stamp" the action of the management at the Annual General Meeting (AGM). This situation facilitates the undermining of the auditor of his being independent of the management in the course of performing his professional duty to the client. Unfortunately, in a great many cases, decisions of this sort by shareholders tend, due to their remoteness from the company, to be a form of "rubber-stamping" of the recommendations of Company directors. This inevitable situation in practice tends to make the auditor more responsive to management than to ownership, thereby creating an apparent bias towards the former, which is detrimental to the concept of independence.

(b) Furthermore, management can easily influence the shareholders to discontinue the service of an auditor, most especially in terms of not re-appointing him at the expiration of his term of office, if the auditor refused to be a willing tool in the hands of management. Therefore, any auditor that is interested in his re-appointment may make a lot of compromise in the discharge of his service to client. Some of the ways in which the directors might be seen to be able to influence the auditors are that the directors can affect the auditors' fee income by removing them from the audit or from some other activity. Replacement and public criticism can also affect the auditors' reputations. This

means that there will be occasions when the auditors will be in conflict with the directors of the company. It is difficult therefore to ensure that the auditors are able to resist any attempt to influence their judgement in such circumstances because the balance of power tends to lie with management. It must always be remembered that the auditor earns a living by providing a service. In order to survive, a firm of accountants must be able to attract and retain clients. If the directors of a company are able to threaten the auditors' income then they have the ability to undermine their independence.

Specifically, problems regarding independence stem from two main sources; namely: the auditors' relationship with the company, and the nature of the accountancy profession itself.

i. **Relationship with the client:**

It is impossible to overcome the fact that the auditors receive a fee for the audit. This creates an immediate and pressing need for them to make sure that they do not endanger this source of income. In practice, the amount of the fee tends to be negotiated with the directors. This means that the directors can attempt to pressurize the auditors into restricting the extent of their investigations or punish them for expressing an honest opinion in the audit report by refusing to pay a realistic fee. The directors can also influence the likelihood of the auditors continuing to receive this fee in future years by attempting to have them replaced by another firm. This means that the auditors are faced with a clear conflict of interest. If they upset the directors, they run the risk of losing their livelihood, because the directors will almost certainly be able to influence the shareholders in their choice of auditor. Very few of the members will have strong feelings about which particular firm should conduct the audit. Secondly, the auditors' representations might be viewed as an attempt to retain a lucrative appointment. If the directors wish to remove the auditors from office because they refused to assist them to mislead the shareholders, then they will almost certainly create some pretext for doing so, saying, for example, that their work was unsatisfactory or that their fees were too high. This could lead to a great deal of adverse publicity for the audit firm and could discourage the auditors from fighting to retain the appointment.

Thirdly, the mechanics of the rules tend to leave the initiative with the directors. It is they who are responsible for copying and dispatching the auditors' response. This means that they are forewarned of their arguments and can respond accordingly. It is, of course, very difficult to measure the extent to which the auditors and the directors disagree and the effects of this conflict, because, the audit fee is not the only incentive to cooperate with the directors. Accounting firms earn an increasing proportion of their total income from the provision of consultancy services. It is common for a company's auditors to provide tax advice as well as acting as management consultants on various other aspects of business. These other contracts may vary from executive recruitment to the implementation of information technology. The directors are also free to award the contracts for these services without seeking the permission of the shareholders. This means that the auditor of the company may be totally dependent on the goodwill of the directors for the continuation of a lucrative consultancy contract. This can hardly reassure the shareholder who has doubts about the auditors' independence.

ii. **The Structure of the accountancy Profession:**

It has been suggested that competition within the accountancy profession has intensified. This can put pressure on auditors in a number of ways. If the directors are displeased with them, then, it will not be difficult to find a replacement. The cost of the audit is another factor. Accountancy firms are constantly trying to improve the efficiency of their techniques so that they can reduce the time taken to complete the audit and their fees. This could lead to the temptation to cut corners in the conduct of the audit in order to avoid the loss of the audit to a more efficient firm. The competition between the accounting firms is also making them more publicity conscious. The loss of an audit tends to be publicized in the accountancy and business press, particularly if a large company is involved. This can create further pressure to avoid the displeasure of the directors. The subjective nature of accountancy is a further source of friction between the auditors and the directors and is also another means by which pressure can be exerted. In deciding whether the accounts show a true and fair view, the auditors must decide whether they agree with the policies, which have been adopted by the directors. If they disagree over a contentious issue, then they run the risk of being replaced. There is also the possibility that they will face public criticism if the directors make known the reasons for their choice of accounting policies and cast doubts on the auditors' understanding of the issues. This could be done through the chairman's statement in the accounts themselves, by an announcement at the annual general meeting or even through the press. A practice has developed which has become known as "opinion shopping". This involves the directors of a company who disagree with their auditors over a contentious accounting issue asking another firm of accountants for their opinion on the matter. It will, of course, be more difficult for the auditors to sustain their position if the other accountants support the directors' argument. It could also lead to the fear that the directors will favour the other firm when they are deciding on the appointment of an auditor for the incoming year. This existence of underground competition among audit firms in Nigeria is contrary to ethic provision of accounting professional bodies. This situation can easily create room for compromise of independence on the part of auditors.

Besides, there is a practice whereby parent audit firm and its subsidiary act in different capacities for the same client with a given accounting period. This practice is not good for the independence of auditors. This is because there is no dividing line between the interest of the parent audit firm and that of its subsidiary although they are two distinct entities in the eye of the law. Another issue is that the statutory provision in respect to responsibility of the auditor is found wanting. This is due to the fact that a legal responsibility to the shareholders is implicit in the provision of Companies and Allied Matters Act (CAMA), 1990 which ignores the interests of a variety of other persons likely to make use of company financial

statements and likely to rely on the opinion of the auditor on their truth and fairness. These persons include existing and potential investors, lenders, employees, suppliers, bankers, government agencies, financial analysts and advisers, and financial journalists. The danger, in so far as auditor independence is concerned is that the auditor, having no established legal responsibility to them, causing his opinion to be biased entirely towards the shareholders, for whom it is primarily intended. The law, therefore, appears to have created a situation which, when circumstances such as the above occur, can cause the auditors' opinion to be something less than independent, because, the current legal framework sees the purpose of preparing and auditing accounts as assisting shareholders in assessing the stewardship of the directors not in assisting investors in their investments. And this is why there are two main reasons why auditors are likely to be blamed for bad investment decisions by the investors. (a) One is that readers of audit reports (opinions) often misunderstand the auditors' role and may genuinely believe that they were entitled to a duty of care. (b) The other, more cynical suggestion is that accounting firms are backed by professional indemnity insurance and may, therefore, be the only parties involved who are able to afford compensation. Thus, the companies and Allied Matters Act, 1990, go to great lengths to protect auditors from the influence of the

directors. These safeguards would prevent the blatant abuse of the auditors and would ensure that the auditors' views were made available to the shareholders. Unfortunately, these rules are not capable of giving total protection to the auditors. Statutory law regulates company audit activity in such a way as to ensure at least a formal recognition of the need for auditor independence. The Companies and Allied Matters Act, 1990, therefore, go a long way towards establishing the appearance of auditors' independence from management, hopefully to the benefit of shareholders. But the real value of the provisions depend entirely on the mental attitude of individual auditors, thus, something that can never be legislated for. These provisions are designed to prevent company management from restricting the scope of the audit, or the opinion of the auditor, and thereby give him not only the appearance of independence but also freedom from pressures which might affect his mental independence. They are, therefore,

the legal license allowing the auditor to undertake his duties and achieve his objectives as he sees fit, without the interference of management.

It was also discovered that the syndrome of corruption in Nigeria is seriously a threat to the independence of the auditors in the Nigerian environment.

The selected audit firms also indicated that auditors act independent of management in Nigeria. In other words, auditors in Nigeria enjoy independence in the course of performing their duties to their clients. However, they agreed that majority of the members of the public do not have the same view with them because they believed that they cannot be able to differentiate between the various types of audit reports (opinions) as well as majority of them do not understand what audit report (opinion) is all about. In other words, there is expectation gap between the members of the public and the auditors especially in terms of understanding the meaning of the audit report (opinion). As the company audit report is the tangible means by which

the auditor expresses his judgement and opinion on the quality of the contents of the company's financial statements, it plays a major part in the creation of report users' confidence in the credibility of the latter. Therefore, it is vitally important that the meaning of the audit report (opinion) is fully understood by all concerned in its preparation and use.

Consequently, therefore, an interpretation of the standard unqualified report on historic cost based financial statements can now be seen as follows:

i. **"To the members"**

The report is required to be addressed to the shareholders, reminding its interested readers that the audit is designed primarily to satisfy and protect the latter group's interests. Thus, although the auditor should take into account the interests of other persons likely to rely on his opinion, it must be remembered that he has no established legal obligation at present to any one other than the shareholders and the company. This must be kept in mind by any lenders, suppliers and others who might make use of the audited financial statements.

ii. **"We have audited"**

This is necessary because of the provisions of Auditing standard 102, and presumably is intended to give its reader confidence in the report knowing that the auditor has had to conduct his audit in accordance with a properly prescribed series of practices issued by the main professional accountancy bodies. However, the reader of the report must not be misled into believing that such a statement necessarily means that the auditor either will have complied with these standards in an adequate fashion or that the existence of such standards has removed any of the personal judgement which is such a considerable element of any audit function. Standards can only provide the framework to the audit, never the substance.

iii. **"In our opinion"**

The report states that it is an expression of an opinion. Therefore, it should not be regarded as a hard and fast guarantee, nor as a certificate of insurance covering the quality of the accounting information, which has been audited. It is simply a statement of personal belief based on a series of judgments made after an expert examination of the available evidence. Many of these judgements are open to debate and differences of opinion, particularly in relation to the accounting policies adopted by the company, although these differences should be reduced in number in the future due to the current series of Statements of Standard Accounting practice.

It is still possible, however, to have two separate auditors conduct the same examination, judge that findings, and come to differing conclusions about them. The audit report, therefore, is far more a statement of belief than of fact.

iv. **"The Financial Statements (which have been prepared under the historical cost convention)"**

The financial statements being audited are the profit statement and balance sheet (consolidated statements, too, if it is a group of Companies), with the funds statement in most cases. This section of the report informs the reader that the auditors' opinion deals solely with those main financial statements, which have been based on historic cost measurements, utilizing the principle of realization. They do not include any financial statements which have been based on any other system of valuation such as current cost accounting. The auditors' opinion, therefore, only covers in this case those statements which adhere to the traditional bases of profit determination and asset valuation.

v. **"Give a True and Fair View"**

This is perhaps the most difficult section of the audit report (opinion) to interpret, because, the phrase "True and Fair view" is not defined in the Companies and Allied Matters Act (CAMA) 1990. but the terms "True" and "Fair" have been taken by the auditors to mean "Corresponding" and "Objective" in relation to accounting information being attested.

"True" means that the accounting information contained in the financial statements has been quantified and communicated in such a way as to correspond to the economic events, activities and transactions it is intended to describe. Correspondence should therefore be taken to mean that the information is appropriate, pertinent and connected to the events, etc., in such a way that it contributes to a firm understanding of them by its users. It does not, however, mean that the information is necessarily relevant to their specific needs. That is a wider issue than the measurement and disclosure matters with which the auditor is concerned.

"Fair" means that the accounting information has been measured and disclosed in a manner, which is objective, and without prejudice to any particular sectional interests in the company. In this way, it should be hoped, the information attested by the auditor will be as credible to non-shareholders as to shareholders.

vi. **"Of the State of Affairs and of Its Profit"**

This part of the audit report (opinion) refers its readers to the fact that the auditors' report (opinion) is an expert judgement on the way in which the financial position, profitability, and funds flow of the company have been quantified and communicated in its financial statements.

vii. **"And Comply with the Companies and Allied Matters Act, 1990"**

The last part of the audit report (opinion) informs its readers that the financial statements have been disclosed and presented in accordance with the detailed provisions of the companies and Allied Matters Act of 1990.

Specifically, the accounting profession in Nigeria has been under intense pressure due to rising public expectations. The rise in public expectation followed the series of financial failures that occurred during the recessionary years of the late 80's and early 90's. During these periods, firms that were certified as being profitable a year or two previously suddenly collapsed. For example, those who relied on the report of Alpha Merchant Bank, which showed that it made an after tax profit of N7.3 million in 1988 just six months after opening shop, N7.9 million in 1989, N15.1 million in 1990, N27.5 million in 1991, and a profit before tax of N48.4 million in 1992, would have been

shocked to the marrow to hear about the liquidation of this bank in 1994. other firms and financial institutions that failed followed similar pattern.

These sudden failures of banks, finance companies, insurance companies, and other companies turned the heat on accounting firms and accountants generally as the public sought for someone to blame. The general opinion was that the auditor was culpable, because this survey study revealed the following on users expectations:

(a) **Going Concern.**

Users of financial statements believe that auditors should comment on the going concern assumptions in the financial statements. In other words, the continuing expectations of investors and other financial statement users is an early warning signal for companies in financial distress. That is there is an ongoing call to auditors to "red flag" those companies for which bankruptcy is inevitable or at least highly probable.

(b) **Fraud and illegal acts.**

Users expect an unqualified opinion to assure them that no fraud or illegal acts have taken place.

(c) **warning of impending collapse**.

Users expect an unqualified opinion to guarantee that a business will not fail at least in the short run.

(d) **Accuracy.**

Users expect financial statements to be accurate.

(e) **Management Performance.** Many users would like to see the auditor express an opinion on both the performances of the company and management

(f) **Independence.**

Users demand that the auditor remain independent and objective of management.

(g) **Duty of care.**

Users believe that the auditor has a duty of care to anyone who relies upon his opinion.

There has been a remarkable consistency in the expectations of users in all of the surveys. They have stood firm in the belief that the auditor should have a greater role in reducing the uncertainty associated with financial statements.

On the other hand, the auditors defended themselves mostly that the auditor is not responsible for detecting frauds and errors. According to respondents, the objective of an audit is to enable an auditor express an opinion on the financial statement of a firm, that is, to convince himself that the accounts and the system that are being used, show a true and fair view and that the accounts are fairly stated. Moreover, the guidance given by the committee on auditing procedures states that, "the issuance of an opinion respecting financial statement is not designed and cannot be relied upon to disclose defalcations and other similar irregularities, although their discovery frequently results".

To drive the point home, many engagement letters contain that language. Furthermore, the issue of distress in the industrial sector is addressed to the problems and difficulties which the users of financial statements have failed to differentiate between business failure, audit failure and audit risk.

A business failure occurs when a business is unable to repay its lenders or meet the expectations of its investors because of economic or business conditions, such as a recession, poor management decisions, or unexpected competition in the industry.

Audit failure occurs when the auditor issues an erroneous audit opinion as the result of an underlying failure to comply with the requirements of Generally Accepted Auditing Standards (GAAS). An example is assigning unqualified assistants to perform audit tasks who then fail to find material misstatements that qualified auditors would discover.

Audit risk represents the risk that the auditor will conclude that the financial statements are fairly stated and an unqualified opinion can be issued when, in fact, they are materially misstated. Because auditors are able to gather evidence only on a test basis and detecting well, concealed frauds can be extremely difficult, there is always some risk that the auditor will not uncover a material fraud even though the auditor complied with Generally Accepted Auditing Standards (GAAS).

In particular, however, the responsibility for detecting and preventing fraud and error in the company is now generally accepted as that of company management, that is directors and employees being charged with the duty of safeguarding the company's economic resources and producing credible information, free of fraud or error. In other words, it is management and not the auditor who is responsible to the shareholders for such matters, and this has been specifically stated as part of the framework to required audit practice in the profession. This means that the responsibility for adopting sound accounting policies, maintaining adequate internal control, and making fair presentations in the financial statements rest with management rather than with the auditor. Because they operate the business daily, a company's management knows more about the company's transactions and related assets, liabilities, and equity than the auditor does. In contrast, the auditor's knowledge of these matters and internal control is limited to that acquired during the audit. That is why auditors spend a great portion of their time planning and performing audits only to detect the unintentional mistakes made by management and employees. Auditors find a variety of frauds and errors resulting from such things as mistakes in calculation, omissions, misunderstanding and misapplication of accounting standards, and incorrect summarizations and descriptions, and at the end, the auditor must obtain reasonable assurance about whether the statements are free of material misstatements or not. It is only when the auditor's suspicions are aroused, or when he has been so careless in his work as to fail to notice an obvious fraud or error, that he has some measure of responsibility for detecting them. Indeed, he is now specifically charged with allowing for this in his work.

The auditor's duties do not require him specifically to search for fraud unless required by statute or the specific terms of his engagement. The auditor should only plan his audit so that he has a reasonable expectation of detecting material misstatements in the financial statements resulting from irregularities or fraud. The auditor is only required to give an opinion on reported accounting information, and in order to do this he has to examine and test the financial accounting process of the company. It is quite

within the bounds of reason that such information will be affected by either or both fraud and error. If the information is so affected, then his opinion will also be affected. Therefore, if the fraud or error should come to his attention during the ordinary course of his audit, he must take this into account when formulating his opinion. The auditors may be concerned with a known or proven fraud or other irregularities but the problems arise mainly with suspected frauds and situations where the auditor suspects wrongdoing but has no hard data.

Above all, auditors are not liable for an indefinite time after publication of the allegedly offending accounts. Because, after a reasonable time it could not be foreseen that accounts will still be relied upon in making decisions. After all, audited accounts are only one source of information about the company which a person should take into account in making decisions.

Specifically, the matters outside the auditor's responsibility are:

i. **Detecting of all fraud and error.**

This would result in an engagement which would require time and money expended out of all proportion to the possible benefits. In any case, such a function is now regarded as the responsibility of company management through the establishment of an adequate system of internal controls.

ii. **Preventing Fraud and Error.**

This function is similarly regarded as the responsibility of company management, although the mere presence of auditor may act as a preventive factor to would be defrauders, the latter not being sure whether the auditor will detect their planned fraud or not.

iii. Ensuring all legal requirements of the Companies Acts have been complied with by the Company.

The auditor's responsibility to these acts is limited to those provisions relating to his own statutory duties and to those relating to the financial accounting requirements to be fulfilled by the company and its management. That is, the type of financial statements

to be prepared annually for the shareholders and the informational content of these statements.

iv. **Guaranteeing the accuracy of the accounting information contained in company annual financial statements.**

Because of the flexibility and variety associated with current financial accounting practice, and also because of the relatively large amounts of opinion and estimate which go into accounting information measurement no set of company annual financial statements can be regarded as accurate or absolutely correct, nor can the auditor be asked to guarantee them. He is not an insurer, because this would be an impossible task, economically and technically. Instead, he is at present required to give a professional and expert opinion, based on a personal judgement of the evidential material he has collected.

v. **Giving aid and advice to company management as part of his audit engagement.**

Such consultancy work as is asked of the auditor is a separate function from the audit. He has no statutory duty at the time to point out weaknesses in the accounting system, advocate improvements in financial control, and so on. However, many professional accounting firms do this voluntarily as part of their audit engagement, and it is gradually becoming more widely recognized in the accountancy profession that the auditor should have some form of responsibility for tasks of this nature. Meantime, however, there is no mandatory regulation requiring him to do so.

vi. **Judging the efficiency and adequacy of company operations and management.**

It is some how assumed by certain members of the business community that the auditor is in some way verifying the quality and standards of company operations and management during his audit. This is not doing, for there is no statutory requirement to this effect. The only occasions when these factors should concern him in his work is, first, when the quality, etc; of operations or management has adversely affected the quality of the accounting information he is attesting. For example, when the accounting system of the company is such that it materially affects the quality of the annual

accounting information, and secondly, in two situations where management's actions may be imprudent, for instance, when making a distribution out of profits affected by a qualified audit opinion, and when purchasing or redeeming a private company's shares out of capital. In both cases, the auditor is required to give a negative assurance as to the reasonableness of management's actions and statements in connection wit these matters.

vii. **Preparing and Producing the accounting information in company annual financial statements.**

The responsibility for this particular function is entirely with company management. This is not to say that the auditor does not prepare or produce company financial statements, because, particularly with smaller companies, he may indeed do this for management. However, if this is the case, he does so in his capacity as a provider of management services, and not as an auditor. Therefore, the ultimate responsibility for the annual financial statements remains with company management despite the sub-contracting of their preparation.

While management of the public companies on their part also defended themselves that, expectedly, accountants who are trained in the same class room with the auditors who are also accountants in the public companies supposed to be effective in their work and exhibit some elements of professional ethics to avoid errors and fraud, while in essence, the existence of fraud is supposed to be legal determination. Moreover, there are laid-down rules and regulations as specified in various laws, that is companies and Allied Matters Act, (CAMA) 1990 and Banks and Other Financial Institutions Decree, (BOFID) to guide auditors in carrying out their work perfectly. Other regulatory bodies like the central Bank of Nigeria (CBN), the corporate affairs Commission (CAC), the Nigerian Deposit Insurance corporation (NDIC), the Nigerian Stock Exchange (NSE) also supposed to monitor and ensure that the standard of auditing and reporting are met adequately by auditors about the companies. The international Accounting standards Committee in general and the Nigerian Accounting Standard Board (NASB) in particular has the statutory powers to set accounting standards that supposed to fit professional accountants and to ensure that the public practice monitoring committee are actually monitoring the standard of work of the professional auditors to avoid the public embarrassment and corporate abuse. But unfortunately, many of these regulatory bodies tended to be overly protective of auditors and thus failed to challenge the fundamentals that shape auditors' performance.

In the assessment of these responses from the respondents as seen above, the researcher was able to come out with the following.i.

It would appear from the foregoing arguments that auditors have a vested interest in cooperating with the directors and managements of the companies.

ii. In company activity, the increase in incidence of management frauds and errors have dominated a larger part of the history of the company audit.

iii. Although the company audit is of benefit to a variety of financial report users, it is legally intended for its owners, the shareholders.

iv. The evidence suggests that an auditor who expresses doubts about the figures which the directors and managements of the companies have published is more likely to be replaced.

v. It is discovered that shareholders are not the actual people that select the most appropriate firm of accountants to conduct the audit to the best of their taste but instead, it is the management that does it on their behalf and they can only ratify it at the annual general meeting.

vi. The auditors' reports (opinions) is not a guarantee, nor is it a statement of undisputed fact. Instead, it is an expression of personal belief in the quality of certain informational propositions, which the auditors have arrived at through a careful and extensive examination and judgement of accounting data collection and measurement processes, many of which are dependent on the personal judgements and opinions of company management and staff.

vii. The rules which are intended to protect auditors' independence are flawed, even though, this does not mean, however, that they are totally ineffective, because, at the very least they lay down a minimum standard against which auditors' work can be measured.

viii. It is also established that majority of the members of the public do not understand what audit opinion is all about.

ix. The public including much of the business community, tend to see an auditor's duties in terms of the detection and possibly prevention of fraud and errors.

x. The widespread ignorance of the precise role of the auditor was seen as the source of much of the adverse press comment about the quality of audit work in Nigeria.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

This study was conducted to make an assessment of auditors' independence and audit reports in Nigeria. The main objective was to assess the auditors' independence and audit reports in Nigeria. The Scope of the study was limited to external auditors, Public Limited Companies, the interested Parties and users of financial statements in Nigeria.

The researcher conducted an extensive review of related literature in order to assist with updated knowledge in carrying out the research.

The research methodology used was survey research method and the descriptive research method.

Appropriate data was collected by making use of the data collection methods. That is, questionnaire and personal interviews. The relevant data was presented and analysed which enabled the researcher to come out with significant findings from the study. From the findings, the researcher would be able to arrive at appropriate conclusion. Suggestions and Recommendations would also be brought in at the remaining part of this Chapter.

5.2 CONCLUSION

Based on the findings of the study the following conclusion were reached:

(i) The value of auditing depends heavily on the public's perception of the independence of auditors. Auditors' independence is most desired by all the users of financial statements that they reported upon. And the higher the level of independence of an auditor, the more reliable, true and fair his audit opinion. It is not surprising therefore, that independence is the first subject addressed in the rules of conduct.

(ii) It is also established that both accounting professional bodies and statutory provisions in Nigeria helped to strengthen the independence of the auditors. But a casual glance at the city pages of any newspaper will reveal abuse of power by dominant chief executives, unexpected company failures, changes of auditors, disputes over accounting policies, excessive remuneration and redundancy pay, companies desperate to sell off companies they purchased only a short time before, excessive borrowing etc. Thus, the widespread news of financial scandal, unauthorized securities trading and falsified financial reporting has not only cast organizational controls and auditors in poor light, but also undermined the confidence of the public in the profession to detect and prevent corporate abuses.

(iii) Common question often asked include: How could one person cause such a huge loss to occur?. Almost as frequently, there is an embarrassing silence or an inadequate response. For example, the auditors' defence is mostly that the auditors are not responsible for detecting frauds and errors. In spite of the auditors' defence and the managements' defence, the shareholders, depositors and most of the general public still feel bitter about auditors. According to them if the collapse of many companies, banks and firms proves anything, it is that auditors' safeguards are worthless. Furthermore, what is the value of an audit that cannot detect the thievery or wide scale fraud that characterized the wonder-banking era, or better put, what is the value of a watchdog that cannot bark.

(iv) Again, the auditors' reports made no mention of financial statements being free of only material unintentional errors. Perhaps that is why the court and the public did not agree with the auditors' defence. Thus, the public held the auditors to a higher standard. Hence we have what is generally called audit expectation gap.

(v) Already, there have been improvements in the areas of repealing the Companies Acts from 1844 Act to Companies and Allied Matters Act (CAMA) 1990, with the whole panoply of regulation of auditors and setting up of the financial Reporting council with the Accounting Standards Board, the Urgent Issues Task Force and the Financial Reporting Review Panel. But still there are so many areas to be criticized such as the preparation and audit of financial information are complicated by the fact that there is no cohesive theoretical framework for accounting. The collapse of several large companies without warning. The auditor does not have a specific responsibility by statute or the operational standard to consider internal controls.

(vi) It is also clear that the existing standards and provisions in Companies and Allied Matters Act (CAMA) 1990, regulating the preparation and presentation of financial statements do not as yet tell the accountants how to report upon all possible situations and secondly, for all pairs of alternative accounting standards, accountants do not prefer one to the other nor are they indifferent between them. Besides, it appears the inclusion of the audit committee in Companies and Allied Matters Act of 1990, cast doubt on the professional performance of the auditor. The audit committee was introduced to review the work of the external auditors before reporting to the members. Unfortunately, the composition of audit committee in many companies is made up of those without accounting and auditing knowledge, so what are they reviewing? This reveals that the whole concept is not appreciated. This means that the audit committee has not been effective and might not be carrying out the functions set out in section 359 subsection 3-5.

(vii) When the auditor judging the type of frauds and errors feels that management could be implicated, to date, however, he has been given little guidance by the professional accountancy bodies on how he should act rather than to state it or to say so.

(viii) Throughout the statutory duties of the auditors, there is lack of a clear indication in the Companies and Allied Matters Act of 1990, that the auditor had a duty of care to individual shareholders, and moreover, it does not, however, define the term "true" and "fair".

(ix) The auditors also face a problem of the suitability of company accounting policies and apparently excessive directors' pay, the rates of which seem to be fixed by the recipients themselves.

(x) There is a feeling by the shareholders and the interested parties that auditors are too close to their clients Companies rather than to interested parties and shareholders as a result of carrying out much non-audit work.

(xi) The auditors' standard report uses standardized language. This reduces the report to a symbolic document, rather than a means of communication between auditor and the reader. Technical terminology is also used. This is regarded as unclear or ambiguous to average readers.

(xii) Above all, one further constraint affecting the present usefulness of audit reports is that the auditor has no legal responsibility to ensure that management has paid any attention to his comments. So long as the content of the management letter has not caused the auditor to be dissatisfied with the truth and fairness of the annual financial statements, management is not obliged to pay any attention to it. Therefore, as the practical developments have indicated a lot of threats to auditors' independence in Nigeria as well as other parts of the world, to this end, all hands must be on deck to correct the situation.

5.3 **LIMITATIONS OF THE STUDY** During the course of this study, certain problems were encountered by the researcher which formed the basis of the limitations.

i. First and foremost, the time available for the research is short considering the geographical spread of the subjects.

ii. Most of the background data especially those required for literature review are not readily available. The basic statistics that form the bedrock of research are often not available. Where available, they are very scanty or by no means reliable.

iii. Many people and organizations tend to have a special liking for secrecy. Even information that otherwise would be for public consumption is considered secret, and individuals dislike any activity that appears as nosing around or trying to probe them.

iv. The fourth one is that there were cases of poor resources due to the failure of respondents to return some of the questionnaires, some failed to fully complete the questionnaires. While others bluntly refused to complete it at all for their personal various reasons. Illiteracy remains the most serious problem facing the people. It is difficult for people who cannot read and write to appreciate the need to supply relevant research information. Effective communication is also a difficulty and there exists an apparent inability to complete research questionnaire blanks and this will make it difficult to obtain pertinent data from them.

v. In the case of interviews administered on persons, that is, the directors and managements of the public companies, the firms of external auditors and the general public who are also known as interested parties, having access to them was very difficult. As directors and firms of external auditors are always very busy people, repeated calls had to be undertaken to their offices and sometimes to their personal houses to book appointments. Even when the appointments are granted, usually the time of discussion was limited to only some few minutes. Therefore, the interview took the unstructured form asking only important questions from such busy there people.

vi. In the last but not the least, the current economic hardships had its effect in terms of the financial resources that could be committed to this study especially transportation cost in addition to cost of materials and the cost of processing this thesis.

5.4 RECOMMENDATIONS

Finally, it is therefore necessary that the conclusion drawn from the findings are applied with due cognizance of these limitations. And it is hoped that the research study has analyzed and assessed the auditors' independence and audit reports in Nigeria despite all these limitations faced by the researcher

In view of the fundamental importance of auditors' independence and audit reports to professional practice, efforts to ensure continuing relevance, given the ever changing socio-economic landscape, must comprise in the main, seeking out newer and newer ways to improve and adopt the scope, content and methodologies of the discipline to the prevailing forces of pressures that hinder the auditors' independence and audit reports (opinions) in Nigeria which exist must be recognized, and efforts must be made to minimize their effect in order to prevent any uncertainties arising about it which could reduce the credibility of the accounting information the auditor is attesting. Because, failure to tackle the problems that militate against the auditors' independence and audit reports (opinions) in Nigeria could further reduce the general confidence in the audit profession and could lead to legislative interference which may be detrimental to the development of the profession. There is need, therefore, for us and especially accounting professional bodies to take measures to re-establish general confidence in audit and the accountancy profession. It is essential therefore, that the auditors' independence and audit reports both in its mental and physical forms, is such that all report users can rely on it with complete confidence.

To improve the auditors' independence and audit reports (opinions) in Nigeria, therefore, the following points are recommended:

i. Appointment by government or a government agency. Because, it has been suggested that the auditors' appointment, etc. by the shareholders implies a certain lack of independence, first, because it appears to ignore the interests of other important users of company financial statements; and secondly, because it tends to cause company directors to be the employers of the auditor, with the shareholders merely endorsing prior recommendations. It has therefore been proposed that the auditor should be appointed by a government agency, such as the Department of Trade and Industry, or by a specially constituted State Auditing Board. The audit fees could be paid by this body out of levies on companies based on their past fee record. The main argument for this suggestion is that it would give the auditor security for employment and leave him free to give a totally objective opinion on the accounting information in the company's financial statements.

ii. Disclosing financial interests and personal relationships. One of the most obvious pressures against the appearance of independence is the auditors' (or their immediate families' or staff's) present abilities to hold financial interests in a client company. At the present time, there are no legal requirements that they should even disclose these interests. In order to make their position clear, the auditors should be required to disclose full details of any shares, etc. they (or their families or staff) might have in a client company. This would undoubtedly clear away any uncertainty there might be as to whether the auditors had financial interests or not in a company they are auditing and whether or not they had complied with the provisions of the Ethical Guide.

iii. Legal prohibition of financial interests. One way to improve the situation of auditors' independence and audit reports would be either legally to prohibit the holding of financial interests, etc. or legally to require the auditor to disclaim an opinion if he continued to be so interested in the company.

iv. Rotation of auditor appointments. It has been suggested that the long-term nature of the company audit engagement tends to create a loss of auditors' independence, due to an increasing familiarity with the company's management and staff, which works against the shareholders' and the public's interests. For this reason, it has been argued that there should be a rotation of the audit appointment every few years, allowing several firms of professional accountants periodically to conduct the engagement, and thereby preventing any unnecessary loss of physical independence which the present situation is thought to cause.

v. The audit court should be established. It has been suggested that the auditors' independence has been eroded beyond repair in many cases, mainly because of the apparent lack of independence in their position when they are permitted to own shares in a client company, conduct management services on its behalf, and be effectively employed by the company's directors. Because of these factors, it is argued that the task of independent audit judgement should be removed from the auditors and given to a judicial audit court where eminent professional accountants would be appointed to judge the suitability of the accounting practices utilized by the company in producing its annual financial statements. The auditors in this situation would act as an evidence gatherer, responsible only for presenting the accounting facts to the court for its judgement and opinion.

vi. The government should enact an Act of Professionals corrupt practices Act to guide practitioners and enforce their responsibilities to third parties and to the public in general.

vii. The accountancy and legal professions should consider further the question of illegal acts other than frauds. Illegal acts are now easy to commit inadvertently as well as with moral turpitude in many fields as employment, health and safety and in the environment. Therefore, the auditor ought to investigate the fraud or error personally rather than leave it to management, especially the case when the matter may have been perpetrated by the management, because management is responsible for detecting and preventing fraud and error, but yet it may be the guilty party.

viii. The government should consider introducing legislation to extend to all companies the statutory protection already available to auditors in the regulated sector (financial service companies) so that they can report reasonable suspicion of fraud freely to the appropriate investigatory authorities. Auditors who report reasonable suspicion of fraud currently direct say to the police lay themselves open to legal action for defamation. Therefore, auditors will only be truly independent if they can be protected from unfair removal from office. And also, the shareholders must always be free to select the most appropriate firm of accountants to conduct the audit for them.

ix. The accountancy professional bodies should draw up guidelines on the rotation of audit partners, because it would however, be unrealistic to give auditors a permanent position with the company as this would reduce the incentive for them to provide an efficient service at a reasonable cost. Audit firms should also review on an annual basis every client to determine if it is proper to accept or continue an audit engagement bearing in mind actual or apparent threats to audit independence and objectivity. The rules of the financial services Act must always be followed.

x. There is a need for a conceptual framework because there is an absence of agreement on the fundamental principles of accounting and reporting.

xi. The professional bodies should leave fee determination to market forces. And fees paid to audit firms should be fully disclosed with the intention of disclosed with the intention of disclosing the relative significance of audit work as against non-audit work.

xii. The listed companies should adopt a code of practice.

xiii. Listed companies should include in their reports and accounts a statement about their compliance with the code of practice with reasons for any areas of non-compliance.

xiv. The statements of compliance should be reviewed by the auditors before publication. Only areas which can be objectively verified should be covered. The nature of such a review will need much thought and some research.

xv. Directors' service contracts should not exceed three years without shareholders' approval.

xvi. Interim reports should be extended to providing balance sheet information and perhaps cash flow information. Interim reports should not be subject to a full audit but it should be reviewed by the auditors. The form of interim accounting needs to be considered by the Accounting standards Board and the Stock Exchange and the auditors' review by the Auditing Practices Board.

xvii. Directors should report on the effectiveness of their system of internal control and the auditors should report on their statement. There will then be a need for some criteria for assessing effective systems of internal control and guidance for companies and auditors.

xviii. The directors should state in their reports and accounts that their business is a going concern with supporting assumptions as necessary and the auditors should report on this statement. Once again there is a need to develop guidance on this for directors and auditors.

xix. With current experience of several financially distressed businesses, may be it is time to review, and may be re-define the attest function of the audit profession.

xx. The audit reporting should be more widely directed than only to the members or shareholders of the company. So that it will be described as totally independent when looked at from the point of view of persons other than the shareholders, such as the company's debenture-holders. And also there is a need for auditors to extend the audit report so that the extent of their responsibilities will be more clearly defined.

xxi. The auditors should be expected to detect those frauds that the exercise of professional skill and care would normally uncover. The auditors should also pay careful attention to the controls within the company's system and ensure that steps are taken to eliminate any weaknesses which could be exploited. The auditors should always pay attention to the effectiveness of their tests and to the availability of new methods.

xxii. The law of joint and several liability should be changed. The auditor can be sued and forced to bear the entire burden of the plaintiff's loss, even if the directors or other parties were partly to blame, so that the liability could be distributed more fairly.

xxiii. The companies and the various groups both existing and potential users of the audit reports should pay much attention to the auditors' reports and make effective use of them. Because, it appears in general that the extent to which the audit report is read and understood by the various groups of potential users and companies commands less attention than any other section of the annual report and is misinterpreted by many of its readers.

xxiv. There is need for the professional bodies to take measures of educating the various groups of both existing and potential users of audit reports and the companies. Readers can, however, educate themselves by obtaining copies of the professional standards and guidelines and referring to text books. Even professional readers may have difficulty in distinguishing niceties of expression which the auditor relies on to absolve himself of certain legal responsibilities.

xxv. There should be meetings between auditors and small shareholder-elected panels to discuss issues arising from the audit.

xxvi. There should be reporting on Summaries of directors' Principal assumptions and judgements made when preparing the financial statements.

xxvii. There should be acceptance by auditors of wider responsibilities than those currently dictated by statue or case law. In particular, by altering their focus from past to future performance of client entities.

xxviii. Above all, the professional bodies need to change the current position regarding auditors' liability for the detection of frauds and irregularities. This is because the incessant occurrence of large scale management fraud is enough to attract auditors' attention towards that direction. Our audit philosophy should, therefore, focus on detecting fraud, irregularities and errors. We cannot run away from that big responsibility if our audit services are to remain relevant in the present day Nigeria. In the area of going concern, auditors' duties have to be extended to a more thorough assessment of the appropriateness of the going concern assumption and over a longer time period. They need to stress that auditors must examine an entity's ability to continue as a going concern by evaluating a company's continued viability in every audit. Furthermore, there is need for auditors' independence at all times so as to ensure a thorough and unbiased appraisal of management. This is because users believe that the auditor has a duty of care to anyone who relies upon his opinion.

Thus, the above recommendations will enhance the quality and credibility of audited financial report. Credibility of financial statement is highly desirable as it facilitates economic decision. For example, the investor making a decision to buy or sell securities, the banker deciding whether to approve a loan, the government in obtaining revenue from income tax return etc, are better served with a reliable and dependable audited financial report.

Finally, the recommendations will also help to re-establish general confidence in the audit profession and enhance the patronage of its services.

5.5 SUGGESTIONS FOR FURTHER RESEARCH

The findings of the research has indicated the need for further research as follows:

Further research could employ additional variables other than the ones used in the current study which will improve the results of this study. Of specific interest, further research should employ statistically more advanced techniques so as to improve the performance of the research and the results.

A further research employing this framework but applied specifically to failed banks during the period will likely provide useful insights that will confirm and improve the findings of this study.

Research should be conducted using larger sample size to confirm whether the findings of this study is applicable to all other further similar research to be carried out in this area of study.

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APPENDIX I
M.SC. THESIS QUESTIONNAIRE

TOPIC:-AN ASSESSMENT OF AUDITORS' INDEPENDENCE AND AUDIT REPORTS IN NIGERIA.

INTRODUCTION

Dear Sir,/Madam

I am a student writing a thesis which is in partial fulfillment of the requirements for the award of a master's Degree in Accounting and Finance. I would be grateful if you would answer the following questions. The questionnaire is designed with the intention to collect data to facilitate an investigation into an assessment of auditors' independence and audit reports in Nigeria. The time frame for this research study is from 1991 to 2000. therefore, answers provided for this questionnaire should be relevant to the period. All the information obtained from you will be used for the academic purpose of research and will also be treated in confidence. Thank you for your co-operation.

INSTRUCTION

Please tick ( ) the appropriate option where possible that best describes your responses and write very clearly to explain fully wherever necessary to back up your facts.

1. How long is your audit firm in operation in Nigeria?

   ---

2. How would you rate the level of performance of Audit function in Nigeria?

   (a) 1 – 20% poor

   (b) 21 – 40% Fair

   (c) 41-60% Good

   (d) 61-80% very Good

   (e) 81-100% Excellent

3. How would you rate the practical control that shareholders exercise on auditors' appointment in Nigeria?

   (a) very Good

   (b) Good

   (c) Fair

   (d) Poor

4. What are the reasons for your answer in "3" above? Specify.

   ---

5. How would you rate the influence of shareholders in fixing and payment of auditors' fees in the Nigerian environment?

   (a) Very Good

   (b) Good

   (c) Fair

   (d) Poor

6. Do you think the disengagement of statutory auditor by client company is usually because of incompetence?.

   (a) Yes

   (b) No

7. Do you think there is the existence of underground competition among audit firms in Nigeria?.

   (a) Yes

   (b) No

8. Is it possible for parent audit firm and its subsidiary to be engaged in different capacities (.e.g. parent firm as auditor and the subsidiary as management consultant) by a given client company during the same accounting period?

   (a) Yes

(b) No

9. Do you agree that given the provisions of companies and Allied Matters Act (CAMA) 1990, a statutory auditor is only responsible to the shareholders and not any other party?

(a) Yes

(b) No

10. Considering the level of corruption prevalent in Nigeria, auditors can easily be influenced by this syndrome and therefore compromise their objectivity. Do you agree?

(a) Yes

(b) No

11. What are forms of audit reports(opinions) that are issued in Nigeria? Please give brief explanation.

---

12. What is your personal view about auditors' independence in Nigeria? Please state briefly.

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13. What do you think is the perception of the general Public about auditors' independence in Nigeria?

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14. How would you rate the understanding of members of the general public in relation to audit reports(opinions) in Nigeria?

a) Very Good

(b) Good

(c) Fair

(d) Poor

15. Do unqualified audit reports (opinions) cover the efficiency, prospects and the going concern concept of a client company?

(a) Yes

(b) No

16. Has your audit firm ever given to any client qualified audit reports or opinions in the past ten years? Explain.

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17. Is there any need to expand the areas to be covered by auditors' reports?

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18. Are the present statutory and professional provisions in relation to auditors' independence and audit reports adequate? Specify and explain further.....

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K.I.S.

A.B.U., ZARIA, 2002.

APPENDIX II

M.Sc. THESIS PERSONAL INTERVIEW QUESTIONS

TOPIC: AN ASSESSMENT OF AUDITORS' INDEPENDENCE AND AUDIT REPORTS IN NIGERIA.

1. (a) In theory the auditors should have no fear of upsetting the directors. If the directors do threaten them with replacement then they can write to the shareholders at the company's expense and speak against the resolution at the meeting. The members of the company can then decide on the resolution to remove or replace the auditors with all of the facts at their disposal. Do you think that these procedures will be effective in practice?.

(b) May you please tell me how you think of the ways in which the directors might be seen to be able to influence the auditors in Nigeria?.

1. (a) How does the guide to professional ethics assist auditors' independence?.

(b) Suggest why auditors are likely to be blamed for bad investment decisions made by investors?.

3. (a) What are the factors that promote auditors' independence in Nigeria?.

(b) What are the roles of audit committees as an aid to auditors' independence in modern business management?.

(c) what are your views on the importance of audit committees?.

(d) Do you think audit committees may have some problems? If yes, what are the problems?.

4. What do you think are the factors that hinder auditors' independence in Nigeria?.

5. What do you think are the factors that affect auditors' reports in Nigeria?.

I. (a) What are the matters do you know that are outside the auditors' responsibilities?.

(b) What is the distinction between Business Failure, Audit Failure and Audit risk?.

(c) How do you make an auditor accountable for his action?.

(d) May you please suggest how audit objectives can be met?.

I. (a) May you please help me with some copies of unqualified and qualified auditors' reports?.

(b) What are the real interpretations of the wordings used in your auditors' reports after you might have finished your audit work?.

8. Practically, please, what are your own personal views or opinions about the auditors' independence in Nigeria?.

9. Practically, please, what are your own personal views or opinions about the auditors' reports in Nigeria?.

10. What are the environmental factors that affect auditors' work in Nigeria?.

K.I.S.

A.B.U., ZARIA, 2002.