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Audit Standards and Performance of Auditors': Evidence From Nigerian Banking Industry

Eluyela Damilola Felix and Ilogho Simon Osiregbemhe
Department of Accounting School of Business, College of Development Studies
Covenant University, Ota Ogun State, Nigeria
trendy_felix@yahoo.com
silogho@gmail.com

***Abstract* - The study address the issue of auditors' performance and audit standards in Nigerian Banking Sector and the understanding of issues surrounding the way and manner that Nigerian auditors' carry out their work. As a result of issuing qualified audit report in the Nigeria financial institutions, billions of naira has been lost by many bank owners and customers due to the negligence of the auditors'. Therefore, the aim of this study is to assess the influence that audit standards has on performance of auditors' in the Nigerian banking sector. The study uses both primary data in form of questionnaires and secondary source of data, previous articles and journals where reviewed on audit standards and auditors performance. The findings used pearson correlation to show the relationship between audit standard and auditors' performance. The study brought to the limelight the positive relationship that exists between audit standards in general and auditors performance in the Nigerian banking industry. Also, there are so many critics to the International Auditing Standards. The study therefore recommends more clarifications and interpretations to this standards to help improve the performance of auditors.**

Keywords— Audit Standards, Audit Quality, Audit report and Auditors' performance.

1.0 Introduction

The auditing profession is guided in standards. Whether issued by the international or local bodies, the outcome of the standards is to have an impact on the activities and behaviour of auditors, (Robert, 2013:4). We generally presume that all of these standards improve the quality of financial reporting. While many will take this perspective as an article of faith, it is still worthwhile to ask: Do auditing standards matter? The purpose of this paper is to provide some insights into that question based on an interpretation of existing theoretical and empirical research in auditing standards.

The International standards on Auditing (ISA's) have been developed to complement practices of auditing among various countries and these standards are to be used when there are no standards developed locally. On July 2006, Nigeria Standards on Auditing (NSA) issued 9 standards. However, it's compulsory for all business establishment listed on the stock exchange market, like NSE (Nigeria stock exchange) to comply with these standards.

However, the compliance with the general audit standards (International Standards on Auditing and Nigeria Standards on Audit standards) have been violated by many professional Auditors in Nigeria, as seen in (Akhalumeh & Ohiokha, 2013). Based on this background, this paper address the issue of auditors' performance and audit standards in Nigerian Banking Sector and the understanding of issues surrounding the way and manner that Nigerian auditors' carry out their work. To this end, this paper intend to discuss the following research questions: What role does audit standard plays in performance of audit work? Therefore, the structure of the paper is as follows. In the second section of the paper we develop the literature review of previous studies. The third part describes the empirical data collection method used for the analysis. The fourth part presents the empirical results and analysis. Finally we present a discussion, our conclusions and suggestions for future research.

2.0 Literature Review

The banking sector has witnessed a lot of crisis for some years now and a lot of attention has been directed to the auditors and accountants role in these industry. Accountability and Transparency is one of the code of ethics of Accounting and Audit profession which all Accountants and auditors must strictly adhere to. This may help in detecting financial irregularities on many company and thereby revealing any case of fraud in the company. Nevertheless, many scholars have opined that professional accountants have engaged their skills and experience to cover and encourage illegal practices as seen in the literature, (Sikka, 2008a). Take for instance, The Accounts falsification of Afribank Plc was said to have been to the negligence of Akintola Williams and Deloitte (AWD), also the overstatement of Cadbury Nigeria Plc profit was deliberately done by them. (Bakre, 2007) as cited by (Musa, Success, Iyaji, 2014) said that between the year 1990- 1994, the Nigerian economy has lost more than N6 billion ($42.9 million) to fraud and this has been within the banking sector alone.

Every standards issued are means to an end itself. They can also be used as tools of instructions that helps in the overall achievement of the organisation goals and objectives. Igbinosun (2011) defined Auditing standards as a number of rules accepted by the profession as guidelines to measure transactions, event and circumstances which affect financial results and financial information supplied to beneficiary parties". Every audit standards should be applicable and appropriate to the objectives of the audit. To this end, every standards must satisfy 4 criteria, these are: acceptability, consistency, suitability and relevance. Between 1980 to 1991, the Auditing Practices Committee (APC) was the standard setting body issuing various auditing standards. Later APC was succeeded by Auditing Practices Board (APB) and they issue the Statement of Auditing Standards.

Standards on Auditing always guide in setting the minimum standard for technical proficiency level. Regardless of the types, Objectives (whether it's for profit or not for profit) and size of the organisation, all audit standards are applicable to the independent auditor based on the audit of the financial statement of the company. At the end of the audit engagement, the auditor will be expected to present a report to the users and shareholders of the company in form of the audit report. In this audit report, the suitor must inform the users that the audit has been carried out in accordance with specified auditing standards. This standards help to provide guidance on the required minimum level of care expected from the auditor in the audit engagement, (Gill & Cosserat, 2000).

Schulte (2007) also states that when the conduct of an auditor is in question in legal proceeding, it is not the province of the auditing profession itself to determine what is the legal duty of auditors or to determine what reasonable skill and care is required to be exercised in particular case, although what others do or not what is usually done is relevant to the question of whether there had been a breach of duty. The court may decide that the standards are deficient. To meet changing business conditions and expectations, auditors should review and update their practices and procedures." The greater harmonization and rise in comparability of financial statements can be increase by IAS.

2.1 Agency Theory

Agency theory suggests that the firm can be viewed as a nexus of contracts (loosely defined) between resource holders (Nwanji, 2007). An agency relationship occurs wherever one or more persons, called principals, hire one or more other persons called agents, to carry out some specific service and then delegate decision- making process to agents. This theory is interested in Agency Conflict (conflict of interest) that exist between the principal and the agent, and also corporate governance and business ethics. From the Ethicists point of view, "it is pointed out that the classical version of agency theory assumes that agents (that is, managers) should always act in principals (owners') interests. However, if taken either the principals interest are always morally acceptable ones or manages should act unethically in order to fulfill their "contract" in the agency relationship. Poor Understanding of agency theory and its application has led to the bad practice of corporate governance in the recent failure of banks. This led to the aim of this study.

3.0 Methodology

This study make use of Pearson Correlation coefficient to test the relationship between audit standards and performance of auditors. This has been successfully used in prior studies (Bakre, 2007; Igbinosun, 2011; Musa, Success and Iyaji, 2014). To aid this work, the geographical coverage includes Western part of Nigeria, specifically Lagos state, because most bank headquarters are situated in the state. The population for this study consists of all the twenty-one banks in Nigeria that are involve in the preparation and presentation of financial statements. For the purpose of validity and reliability, ten banks was selected for sample size. The sample size were selected using convenience sampling based on costs and proximity of the researcher. This banks are selected based on their stability, profitability, and spread of network, customer base and deposit. Eighty questionnaire were distributed to the stakeholder of the banks and sixty were returned back. The stakeholders are bank customers and bank staffs.

4.0 Findings

The Pearson correlation was used for to test the relationship between Audit Standards and audit report. This was validated by (Bakre, 2007; Igbinosun, 2011; Musa, Success and Iyaji, 2014). The study shows there is a strong positive correlation between the two variables. The study findings is in agreement with Ohiokha & Akhalumeh (2013), they said that there is a positive correlation between auditing standards and performance of auditors. They carry out their study on the manufacturing sector that are listed on the stock exchange.

The results in the table below shows a descriptive analyses of the data used for this study. The International Auditing Standards (ISA) has been proven to be quality, as noted by (Bakre, 2007; Igbinosun, 2011; Musa, Success and Iyaji, 2014). From the results of the study, it shows that there is a positive correlation of 0.90. The results also show that auditors comply with the all relevant standards. This is in relation with the Agency theory used in this research work.

5.0 Conclusions and Recommendations

The study evaluate the relationship between audit standards and performance of auditors in Nigeria banking sector. General observation has been directed towards the basic role of audit which has move from the pretentious condition that all the company funds are duly accounted for, and also audit work provides assurance services to the management of an organisation whose investors may be interested in. So, there is a need for standards setters to improve and work on this standards.

The policy implication for this study show that there are so many critics to the International Auditing Standards issued by International Audit and Assurance Standard Board (IAASB). The study therefore recommends more clarifications and interpretations to this standards to help improve the performance of auditors.

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APPENDIX

Correlations

		STD.QUA	COMPL.Q	I.A	ADHERENCE	KNOW.BASE	APP.RENUM	APPRO.MEA.RISK
STD.QUA	Pearson Correlation	1	-.165	.168	-.183	.413**	.666**	.117
	Sig. (2-tailed)		.207	.199	.162	.001	.000	.375
	N	60	60	60	60	60	60	60
COMPL.Q	Pearson Correlation	-.165	1	.069	.314*	.101	-.171	-.394**
	Sig. (2-tailed)	.207		.598	.015	.441	.191	.002
	N	60	60	60	60	60	60	60
I.A	Pearson Correlation	.168	.069	1	.045	-.192	.209	-.127
	Sig. (2-tailed)	.199	.598		.730	.141	.109	.333
	N	60	60	60	60	60	60	60
ADHERENCE	Pearson Correlation	-.183	.314*	.045	1	.203	-.230	.006
	Sig. (2-tailed)	.162	.015	.730		.120	.078	.963
	N	60	60	60	60	60	60	60
KNOW.BASE	Pearson Correlation	.413**	.101	-.192	.203	1	-.039	.090
	Sig. (2-tailed)	.001	.441	.141	.120		.767	.494
	N	60	60	60	60	61	60	60
APP.RENUM	Pearson Correlation	.666**	-.171	.209	-.230	-.039	1	.020
	Sig. (2-tailed)	.000	.191	.109	.078	.767		.879
	N	60	60	60	60	60	60	60
APPRO.MEA.RISK	Pearson Correlation	.117	-.394**	-.127	.006	.090	.020	1
	Sig. (2-tailed)	.375	.002	.333	.963	.494	.879	
	N	60	60	60	60	60	60	60

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 1

Where:
Std.Qua= Standard Quality
Compl.Q= Compliance Quality
I.A= Internal Audit
Adherence= Adherence to rules
Know.Base= Knowledge base
App.Renum= Appointment and Remuneration
Appro.Mea.Risk= Appropriate Measure Risk