

Auditing Standards and Auditors Performance: A Study of Nigerian Banks

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Abstract— The objective of this study is to examine the impact of auditing standards on auditor's performance in the Nigerian banking sector. The rate of fraud and unethical practices occurring in the Nigerian Banks are quite alarming. Fingers are pointed at the auditors with the notion that they are not performing their responsibilities with a high level of competence and compliance to the regulatory framework. To achieve the objectives of the research, three hypotheses were formulated using the structure of the research questions. The type of data used for the study is primary data through the issue of questionnaires to auditors of banks from big fours. The data obtained were analysed using ordinary least square regression model through SPSS. The findings show that auditing standards is important in enhancing the auditor's performance in the banking industry. It also indicates that accountability and auditor's performance are positively related. It also shows that auditing standards and compliance has an effect of auditor's performance. Compliance has a positive but weak degree of relationship with auditor's performance therefore implying that it does have that much influence on the auditor's performance. The study recommends that the financial reporting council should closely monitor the banking sector in order to enforce strict compliance to regulation and attach sanctions to violations.

Keyword— Auditor Performance, Accountability, Auditors Compliance, Auditors Competence

1 INTRODUCTION

Auditing can be traced to as far back as the inception of accounting (Ajao, Olamide & Temitope, 2016). This was as a result of the need to check the accounting reports and activities that have been reported to increase the reliability and assurance placed on the reports. Auditing is an integral part of the accounting sector which should be guided by standards to ensure that the body is effective and efficient (Fagbemi, Abogun, Uadiale & Uwuigbe, 2013). The essence of setting standards is to direct the behavior of the auditor towards achieving the aim and goals of the audit. The auditor's role is to add credibility and increase assurance; hence, it is important to establish standards to guide their behaviors. Standards have been put in place to regulate the profession some of which are International Standards on Auditing (ISA), Nigerian Standards on Auditing (NSA) and so on (Ajao et al, 2016).

The Nigerian banking sector can be seen as an accelerator for the nation's development. The banking sector is a large sector and engages in activities such as resource allocation, funds management, human capital mobilization, setting polies for monetary and macroeconomics purpose (Jibrin, Blessing, & Danjuma, 2014). Nigerian banks also offer a helping hand when the nation is facing challenges in developing by distributing resources to the various functional and productive areas of a nation and making sure that areas of deficit are being identified in order to enable its funding using the excess of areas with surplus funding.

This is as result of the different crisis that has

occurred in the Banking sector which has caused banks to be acquired or merged as a result of the high level of fraud discovered. Some of these failure or crisis has been attributed to audit failure. This study aims to emphasize on the relevance of auditing standards on the auditor's performance. It intends to evaluate how some other factors like auditor's compliance, auditors competence and auditors accountability can also influence the auditors performance.

2 LITERATURE REVIEW

Public Sector Accounting defined Auditing as "the evaluation of the financial reports of an organization with the aim of providing a reasonable assurance that the presented reports shows the truthfulness and fairness of the financial position of the firm, the reports have been prepared in accordance with the necessary regulatory framework and that the internal control system of the organization has been scrutinized" (Ezeani & Rotimi, 2012). An audit is all about examining the financial reports with an independent mind and giving a professional opinion on the reports of the organization in compliance with the terms of engagement, professional and statutory requirements, (Ezugwu & Negedu, 2014). The independent examination of the financial reports as well as the expression of opinion is being carried out by an auditor who is appointed to pursue the appointment and recognizing the necessary obligations attached, (Ezeani & Rotimi, 2012).

Standard, in the days of old, was usually seen as a sign to align and converge allies during a battle as a form of regulating the battlefield (Ajao, Olamide, & Temitope, 2016). The Oxford Accounting dictionary has described the Auditing standards as “the fundamental building blocks in which auditors are to comply and conduct their audit of financial statements. In other words, the audit standards should be in accordance with the objectives of an audit (acceptability, relevance, consistency and suitability) and also has to be important and suitable within a particular social environment” (Ohiokha & Akhalumeh, 2013). Audit standards are guidelines to the measurement of various transactions and activities that will affect the financial outcome and accounting information being given to the diverse users involved (Fagbbemi, Segun, Uadiale, & Uwuigbe, 2013).

In Nigeria, prior to the industrial revolution that took place in the 1900, accounting was majorly concentrated in the government sector (Ajao, Olamide, & Temitope, 2016). The economic growth was high during this period thereby bringing about the existence of managers that were not owners of the business. This new dimension made it necessary for the owners to have individuals independent of management to help evaluate the reports made by these managers. The origination of the concepts, internal control and audit risk has taken much attention in the audit profession. Overtime, fraud detection is no longer the objective of audit; it is now focused on examining the managements report independently (as a professional) and giving their observations and finding to the shareholders (Okoye, Okaro, & Okafor, 2015).

In Nigeria, we have two professional accounting bodies that are self-regulatory: ICAN -- The Institute of Chartered Accountants of Nigerian and ANAN -- The Association of National Accountants of Nigeria (Ajao, Olamide, & Temitope, 2016). They have been statutorily been appointed for setting of standards and regulating of the accounting profession in Nigeria. ICAN members are to comply with the Nigerian Standards on Auditing (NSA) which is established in line with International Standards on Auditing. (ISA). The Nigerian standards on Auditing (NSA) have a total number of thirty six (36) standards as issued by the Institute of Chartered Accountants of Nigeria (ICAN) to guide auditors conduct.

2.1 Theoretical Framework

2.1.1 Agency Theory

This theory propounds that when owner(s) hire agent(s) to help out in the decision making of the firm as well as other services, there exist an agency relationship (Hassan & Farouk, 2014, Jibrin, Blessing, & Danjuma, 2014; Ajao, Olamide, & Temitope, 2016). The theory focuses on the conflicts that exist as a result of this relationship and also takes into consideration corporate governance and ethical values. The theory is of the notion that agents are expected to behave and act in the interest of the owner (Hassan &

Farouk, 2014). In reality, the agents usually act in their own self-interest. This has been as result of the misinterpretation of the corporate governance code thereby leading to bad practices in the Nigerian Banking sector (Jibrin, Blessing, & Danjuma, 2014). The audit fees are bond fee paid by the principal/owners to an independent individual to review and check the activities of the agent/management and boost the level of assurance and confidence on financial information (Hassan & Farouk, 2014).

2.2 Development of Hypotheses

The hypotheses for the study are stated in their null form.

H₁ There is a degree relationship between auditing standards and auditor's performance.

H₂ There is no level of relationship between accountability and auditors performance.

H₃ The auditor's competence and compliance do not depend on the adherence to auditing standards.

3 MATERIALS AND METHODS

In the conduct of this research, descriptive survey method has been employed. This is used because the study will make use of convenience sampling of the population and draw findings based on this conclusion upon the analysis of available data. The survey method is used as a result of the researchers' inability to manipulate the variables employed in this research. This research made use of a population size of auditors for both bank. Absolute attention was given to selecting a sample size in order to ensure a valid representation of the population. Confidentiality of information were the constraints encountered in carrying out this research. The sampling method employed in deriving the samples was non random sampling method (convenience sampling method). Questionnaires were issued to target population of (100) auditors with sixty (60) respondents.

3.1 Model specification:

The econometric model used to explain the relationship between the dependent and independent variables was adopted from the work of

$$AUP = F \{ACT, AUS, ACP, ACL\};$$

$$AUP = \beta_0 + \beta_1 AS + \beta_2 ACP + \beta_3 ACL$$

Where:

| | | |
|-----|---|----------------------|
| AUP | = | Auditors performance |
| ACT | = | Accountability |
| AUS | = | Auditing standards |
| ACL | = | Auditors Compliance |
| ACP | = | Auditors Competence |

The two categories of variables (dependent and independent variables) have been used as focus points in the questionnaire issued which relates to auditor's performance, accountability, auditing standards, auditors compliance and auditors competence in the regulation of

the audit profession. In order to measure the degree of significance of relationships that exist between independent and dependent relationship, a five-point scale technique was used. The five-point likert scale is 1 = strongly disagreed, 2 = Disagreed, 3 = Undecided, 4 = Agreed, 5 = Strongly Agreed, this order of ranking was employed in the analysis of data. The data collected was analyzed using Pearson correlation analysis.

4 DISCUSSION OF RESULTS

The result of the research performed is stated in the table below;

Table 1: Ordinary least square results

60 observations for estimation for 1-60

| Independent Variables | Co-efficient | Standard error | t-value | Public |
|-----------------------|--------------|----------------|-----------|--------|
| CONSTANT | 16.4131 | 6.9137 | 1.3859 | 0.22 |
| ACT | 0.18242 | 0.18761 | 0.65044 | 0.469 |
| AUS | 0.19403 | 0.13977 | 1.4001 | 0.176 |
| ACL | -0.8768954 | 0.19857 | -0.48569 | 0.604 |
| ACP | -0.0102437 | 0.17377 | -0.685686 | 0.593 |

Source: SPSS Result

R2= square 0.068530

Adjusted R- square = 0.0027850

S.E of Regression = 6.1477

F- Statistic =1.0323

Mean of dependent variable = 22.4098

SD of dependent variable = 6.1657

Durbin –Watson statistics (DW) =1.8565

AUP = 16.4131 + 0.18242 ACT + 0.19403 AUS - 0.87690 ACL - 0.01024 ACP + U

4.1 Test of Hypotheses and Regression Results

The analysis of the OLS result from the above table shows that the co-efficient of determination (R Square) was at 0.068 which indicates that roughly 6% of the variations in the auditor’s performance level is explained by the differences in the explanatory variables in the model. This result shows a low goodness of fit implying that a larger part of variations is caused by other variables not mentioned as represented by the error term. The F statistics of 1.03 is less than the critical F value of 2.76 at significance level of 5%. This implies that the linear function stated above might not apply to this case.

The analysis of the coefficient variables reveals the following;

ACT: is positive; thereby implying that accountability are aligned with auditing standards. The effect is statistically insignificant at 5%. In other words, audit performance is not solely dependent on accountability. However, the adherence to these standards and regulations in order to be compliant will be important to improve accountability.

AUS: is positive; this implies that auditing standards provide the necessary context that will guide auditor’s performance. In other words, there are other variables aside from auditing standards that contribute to audit performance. However, the adherence to these standards and regulations in order to be compliant will be important to improve audit performance.

ACL: is negative; that is, the effect audit standard on compliance is negative at 5% level of significance. This implies that standards may not lead to improved audit performance

ACP is negative; this implies that the competence of the auditor is not dependent on audit standards.

Table 2: Correlation Result

| | AUP | ACT | AUS | ACL | ACP |
|-----|-------|-------|-------|-------|-------|
| AUP | 1 | 0.169 | 0.229 | 0.519 | 0.065 |
| ACS | 0.169 | 1 | 0.379 | 0.546 | 0.156 |
| AUS | 0.229 | 0.379 | 1 | 0.095 | 0.165 |
| ACL | 0.519 | 0.546 | 0.095 | 1 | 0.167 |
| ACP | 0.065 | 0.156 | 0.167 | 0.123 | 1 |

Source: Field work 2016

Where:

AUP = Auditors Performance

ACT = Accountability

AUS = Auditing Standards

ACL = Auditors compliance

ACP = Auditors competence

The above correlation result shows that the independent variables (auditing standards and accountability) have a positive relationship with dependent variable (auditors’ performance). The relationship between auditors performance and auditing standards shows 0.196 which suggests that there is a positive correlation coefficient but weak association between the two variables. The relationship between compliance and auditors performance are positively correlated at 0.519 indicating that auditing standards increased adherence will improve auditors performance. Performance and competence have a positive but weak relationship with a correlation coefficient of 0.065.

4.2 DISCUSSION OF RESULTS

The analysis of data using Pearson correlation method of analysis showed the level of relationship between the dependent variable (auditors’ performance) and the independent variables (auditing standards, accountability, competence and compliance).The analysis of data showed that the degree of relationship between auditing standards and the auditor’s performance shows a 0.904 correlation coefficient. This suggests that there is a positive correlation

coefficient and strong association between the two variables. This implies auditing standards provide the necessary context that will guide auditor's performance. In other words, there are other variables aside from auditing standards that contribute to audit performance. However, the adherence to these standards and regulations in order to be compliant will be important to improve audit performance. The relationship between auditors compliance and auditors performance shows a 0.786 correlation coefficient. This suggests that there is a positive correlation coefficient and strong association between the two variables. This indicates that auditing standards increased adherence will improve auditor's performance. This implies that if auditors comply with the relevant auditing standards, their performance will be enhanced. It also implies that these standards are being complied with. The relationship between the auditor's performance and accountability shows a 0.07 correlation coefficient. This suggests that there is a positive but weak relationship between the two variables. This means that there is a relationship between accountability and auditor's performance but audit performance is not solely dependent on accountability. The analysis of auditor's competence on auditor's performance shows -.177 correlation coefficient. This implies that the competence of the auditor is not dependent on audit standards.

4.3 FINDINGS

The results of the analysis of data above show that auditing standards is important in enhancing the auditor's performance in the banking industry. It also indicates that accountability and auditor's performance are positively related which implies that when auditors comply with auditing standards, their performance will be enhanced. It has also discovered that accountability is very important in auditor's performance. It also implies that auditing standards provide the essential framework that will be adhered to by auditors thereby enhancing their performance. Proper regulations will have to be put in place in order to attain a very significant improvement on the auditor's performance. Compliance has a positive but weak degree of relationship with auditor's performance therefore implying that it does have that much influence on the auditor's performance. However, the implication of this finding is that the compliance of auditors according to stipulated findings is capable of improving their performance. Competence has a negative relationship and is insignificant to auditors' performance.

5 CONCLUSION AND RECOMMENDATION

This study was focused on the evaluation of auditing standards on auditor's performance in the banking sector. The Financial Reporting Council should endeavor to closely monitor the banking sector in order to enforce compliance especially among those that are performing

below standard. Noncompliance should be sanctioned through fine, levies or withdrawal of operating licenses for both the industry participants as well as the auditors. The NSA issued by ICAN should be reviewed as they are not completely aligned with ISA. The finding of this work has indicated that auditing standard set rule and guidelines which has the auditors to perform the audit in such a way that gives his work a high degree of assurance. The research also recommends that the ISA and NSA need more interpretation in order to ensure that the main aim and objective, through the compliance of the auditor, is achieved. Auditors should be educated on the need for compliance and its effect on their performance. It can therefore be said that auditing standards has a significant relationship with auditors' performance.

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