Effect of Non–Audit Services on Auditor Independence of Deposit Money Banks in Nigeria

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Abstract

This research looked at how non-audit services affected the partnership between auditors and Nigerian deposit money institutions. Descriptive survey methodology was used for this investigation. The study was directed by two research aims. All 24 of Nigeria's deposit money banks make up the populace. The population was sampled using a systematic sampling method, and the sample size was 36 managers (three from each of 12 banks). The researcher used a questionnaire she designed to gather the data. "Pearson's product-moment correlation (PPMC) was used to verify or refute the hypotheses and investigate the study issues. The research showed that the auditor independence of listed deposit money banks in Nigeria is positively correlated with the provision of non-audit services" (indicated by taxation and management advice services). Non-audit services and auditor independence were also shown to have a substantial correlation with the aforementioned Nigerian deposit money institutions, the research found. Auditors at Nigerian deposit money institutions were urged, among other things, to reduce the number of non-audit services they provide to customers in order to focus more on auditing.

Keywords: *Audit, Auditor Independence, Non–Audit Services, Deposit Money Banks*

Introduction

In light of the growing need for openness in the marketplace, independence is an important consideration for auditing quality. The Auditing Standards Board has undertaken a number of inspections of publicly traded firms in order to identify situations in which auditors did not seem to have acted with the requisite level of independence, impartiality, and professional scepticism with respect to some component of the audit. Over time, authorities have voiced concerns about the lack of auditor independence and made steps to address those concerns. The Sarbanes-Oxley (Sox) Act was passed in 2002.

There is substantial grounds for alarm over the combination of "NAS (non-audit services) and independence. Many audit companies provide NAS in addition to audit services like management consultancy services, taxation services, etc." due to the client's indifference towards brand reputation and profit-making objectives. The supply of NAS and how it could impair auditor independence becomes an issue when the percentage of audit services provided changes.

The quality of audits may be affected by whether or not the auditors are really independent. According to DeAngelo (1981a), audit quality is the likelihood that an author will find a violation and notify management. The quality of audits will suffer if auditors are not allowed to maintain their independence.

For decades, there has been discussion over how providing services outside of auditing affects auditor independence. There has been a significant credibility problem in the auditing profession as a result of a recent investigation into dubious accounting practiseutilised by several Nigerian corporations (Olusanya&Lanwo, 2010). Non-audit service is a hot subject in today's society. Recent events have stoked the fires of scepticism even further, as observers ask why an auditor would cast doubt on the accuracy of an appraisal included in a financial statement he helped prepare for a client. The Nigerian SEC focused on the function of the auditors of the firm after the recent failure of banks and companies in Nigeria, such as Cadbury Nigeria Plc, accounting controversy in 2006 (SEC 2006), which has been considered as the Nigerian Enron analogue in terms of its enormity. The auditors were accused of not being sufficiently cautious and thorough in their work for the corporation. Stakeholders believe that the heart of audit failure lies on issue of Auditors independence, objectivity and professional skepticism. Non–audit services (NAS) is one among the many factors that affects the independence of auditors.

According to Anichebe (2010) auditors in Nigeria accepts all services (exception of those he has no knowledge about). These unpleasant audit failures in Nigeria and around the globe prompted the search for more way of enhancing independence of auditors while carrying out non – audit services.

Statement of Problem

Recent global financial crises may be traced back to banks and other monetary establishments. A portion of the central primary reasons for these emergencies were the decrease in the worth of their resource portfolios, the deceitful show of made up financial reports, and the failure to comply with corporate governance principles, all of which stemmed primarily from skewed credit management (Sanusi, 2010). Companies including “Enron Corporation, Tyco International, WorldCom, Global Crossing, Arthur Anderson, Oceanic Bank PLC,” Cadbury PLC, and others all fell victim to mismanagement that was blamed on the board. Auditors' role in improving the financial performance's quality, dependability, and credibility has been contested. “Inadequate regulation and oversight of the auditing practise, providing non-audit services to the client, and the auditor's personal interest in the client's company” are just a few ways in which auditors' independence from their customers may be compromised. The backdrop of improvements in audit independence and quality control is the reduction in trust in financial reporting and auditing caused by company bankruptcies and audit failures in a number of nations, including Nigeria. As a result, authorities have tightened oversight of accountants in an effort to restore public and investor faith in the reliability of business financial statements. The International Federation of Accountants (IFAC) has established standards for audit rotation, tenure, and fees; nevertheless, several banks that are still operational and listed on the Nigeria stock market have not accepted these standards. Bank directors have the authority to appoint, reappoint, and dismiss external auditors, and to set auditor fees in accordance with Auditor General recommendations. Directors as officials of the organisation present a conflict of interest since they are also responsible for managing the organization's finances, budgeting, spending, granting contracts, and preparing financial statements. Those in a position to provide stewardship accounts are also those with the authority to choose and dismiss the outside auditors who review their actions. This is in direct opposition to the norms of public accountability and will have an adverse effect on the impartiality of their audit opinion.

Attempts at conducting research on the connection between auditors' independence and audit quality have yielded contradictory viewpoints and contradictory outcomes. These studies were done using secondary data. Hence, this study is geared towards filling this gap.

Aim and Objectives of the Study

The primary goal of this research is to determine how non-audit services affect the independence of auditors at Nigerian banks that have been publicly traded. The following aims of the research were met:

1. Determine the relationship between taxation services and auditor independence of quoted deposit money banks in Nigeria.
2. Determine the relationship between management advisory services and auditor independence of quoted deposit money banks in Nigeria.

Research Questions

The following research questions were formulated to guide the study:

1. What is the relationship between taxation services and auditor independence of quoted deposit money banks in Nigeria?
2. What is the relationship between management advisory services and auditor independence of quoted deposit money banks in Nigeria?

Hypotheses

HO_1: There is no significant relationship between taxation services and auditor independence of quoted deposit money banks in Nigeria.

HO_2: There is no significant relationship between management advisory services and auditor independence of quoted deposit money banks in Nigeria.

Literature Review

Auditor Independence

De-Angelo (1981) defined impartiality as the improbable possibility that the auditor may disclose a violation that was discovered. Watts and Zimmerman's (1983) definition of independence as the likelihood that the auditor would disclose some detected violations of contract lends credence to this notion. Independence is defined by the US Securities and Exchange Commission as the ability to think and act independently of outside influences.

The auditor's independence is just as crucial as the quality of the audit itself. The quality of an audit and the auditor's impartiality are inextricably linked concepts. “Researchers attribute the ineffectiveness of reforms to regulation to the Political power of the audit industry for implementing clever tactics to displace fault on individuals or other parties” (Humphrey and Moizer 1990; Humphrey 2008). Several auditing studies have linked auditor independence with audit quality. Due to the fall of complex companies like Enron, WorldCom, etc., the issue of auditor independence has garnered considerable attention from practitioners, regulators, and academics throughout the globe in recent years. Since the inception of laws requiring public businesses to employ an independent auditor, there has been apprehension about the possibility of conflicts of interest between the auditors and the companies they audit

(Mautz and Sharaf, 1961). When it comes to auditing, independence is not only a vital concept for auditors but also a necessary prerequisite for a corporation to reach particular goals.

Economic Benefits of Auditor Independence

Auditors play the role of gatekeepers to public capital markets. An auditor's professional "opinion on whether or not a company's financial statements present a true and fair view and were prepared in accordance with the Companies and Allied Matters Act (1990)" and other regulations lends credibility to the company and its financial stability.

Conditional chance that an auditor will disclose a violation after discovering it is used to characterise the degree of auditor independence. In order for the auditor's judgement to have weight in the financial markets, he has to be incentivized to provide his client the "truth," even if that fact is unfavourable to the client. The credibility of an auditor's report increases as the auditor has more reason to be truthful.

The perceived ability of the auditor to: i) "detect errors or breaches in the accounting system and ii) withstand client pressure to disclose selectively in the event of a breach is crucial to the ex-ante value of an audit to consumers of audit services (current and potential owners, managers, consumers of the firm's product, etc.)."

For the ideal level of independence to fall short of perfection, auditors must anticipate future quasi-rents from a particular client relationship. The client-specific rent for a particular time is the amount by which revenues exceed avoidable costs, such as the opportunity cost of auditing the next best alternative customer. If the auditor does not stand to gain financially from concealing a found violation, then no client-specific quasi-rents are to be anticipated from the connection in question. For this specific customer, the auditor has complete objectivity (Watts Zimmerman and DeAngelo 1981).

Efficient market theory predicts that auditors with a known economic stake in the clients would have enhanced incentives for deception, and that the costs of these incentives will be reflected in the clients' share price. Clients (via effect on firm value) and auditors (via fees charged by the auditor) can both benefit from an independent audit, so there is incentive for both parties to voluntarily choose agreements that allow them to realise the expected net benefits of an independent audit (DeAngelo 1981).

NON–AUDIT SERVICES

As per Monetary Detailing Board (FRC), non-review administrations contains any commitment to which a review firm offers proficient types of assistance to an examined element, an evaluated substance's partners or one more substance in regard of the evaluated element other than the review of fiscal report of the examined substance (FRC, 2010). Feelings are separated with respect with the impact of non - review administrations on autonomy.

Research by Brandon, Crabtrde and Mahner (2004) demonstrated non - review costs as all expenses not straightforwardly paid to the review, including frameworks establishment, frameworks change, charge readiness, consultancy and inside review charges. Numerous examinations (for example Simunic, 1984, and Firth, 1997) recognized in their review that evaluators helped administration increment the restrictions of bookkeeping norms in light of the stockpile of non - review administrations (NAS). Examiners are moreover stressed of losing part of their rent(fees)due to the executives movement. Some new explores (for example Abbott, Parker, Peter and Rama 2003) proposed that Public enormous firms had a penchant to pay something else for NAS, which thusly brought forth the competition between reviewers giving review administrations and those providing NAS.

Examiners have a financial motivating force to convey "NAS to their review clients, since NAS are oftentimes considered as being more rewarding. Dopuch and Lord (1991) propounded that restricting the consolidated stockpile of review and NAS might bring about inspectors choosing NAS over review." Simunic (1984) claims that the double inventory of review and NAS might prompt information overflows, consequently limiting commitment chances and helping review quality.

From the expert viewpoint, the stock of non - review administrations increment the inspectors' information on clients and reinforces the ability to reveal cheats. This suggests, the nature of the review will increment without compromising the inspector's autonomy. Jenkins and Krawcxyk (2000) found that the contribution of non - review administration helps examiners to more readily comprehend their clients and increment review quality.

Some others with a different perspective such as DeAngelo (1981), asserts that the bigger the proportion of fee revenue an auditor earns from a given client, the more the dependence on the customer and the stronger the economic restrictions. Auditors will continue to provide unqualified views on low quality financial statements as they maintain such customers. In the event that the extent of non - review administration charge is excessively huge, examiners are inclined to give up clients over the deficiency of concentrated profit, in this way undermining their autonomy.

The Sarbanes - Oxley Act in 2002, disallows an evaluator structure conveying most non - review administrations to a review client. This guideline is incited by the idea that the ensuing financial tie among evaluators and clients will subvert autonomy, consequently, hurt review quality. past to SOX Act 2002, Krishnan et al. (2005), and Francis and Ke (2006), examined a 2001 information, past to the SOX Act, under the SEC necessity for exposure of review and non - review expenses, their analysis found that businesses which participate in high proportion of NAS fees reported lowest audit quality. This opinion was backed by Lim and Tan (2008) who states that the inclusion of non – audit fees degrades audit quality after evaluating the same data.

Types of Non – Audit Services

Area 201 of the SOX Demonstration of 2002 rundown nine non - that's what review benefits, assuming given by the bookkeeping firm impede the company's autonomy.

i. Bookkeeping or different administrations connected with the bookkeeping records or fiscal summaries of the review client. The examiner or the reviewing firm is restricted by the standard to review the accounting work ready by the evaluator himself.

ii. Financial Data frameworks plan and Execution:

The reviewer is precluded from offering types of assistance connected with the client's data framework except if these outcomes will sensibly not be dependent upon the review system during the review. The principles won't forestall a bookkeeping firm from chipping away at equipment or programming frameworks that are irrelevant to the budget report of the reviewer's client or it's bookkeeping records for however long they were supported by the review council.

iii. Appraisal or Valuation Administrations, reasonableness choices, or commitment in - kind reports.

Examination and valuation administrations are any course of esteeming resources, both unmistakable and elusive, or liabilities. Decency feelings and commitment - in - kind reports are suppositions and reports in which the firm gives its perspective on the sufficiency of thought in an exchange. SOX Act rules denies the reviewer from offering such types of assistance except if it is sensible to infer that the aftereffects of these administrations won't be liable to review techniques during the review.

iv. Management Warning Administrations;

The guidelines will restrict the bookkeeper (evaluator) from acting for a brief time or forever, as a counsel, chief, other or representative of a review client, or act in any choice in making administrative, or progressing observing capability for the review client. The standards likewise give that an evaluator's freedom is disabled assuming he goes about as a moderator looking for planned possibility for administrative, leader or chief situations for the client.

v. Legal Administrations

A reviewer or review firm is disallowed from offering types of assistance that ought to be given by an authorized, conceded or generally qualified by regulation in the Ward in which the help is given.

vi. Broker or vendor, venture counsel, or speculation banking administrations.

Going about as a merchant - seller (enlisted or unregistered), advertiser or guarantor in the interest of a review client and comparative exercises will make examiner advocate for the client and will hinder the evaluator's freedom.

vii. Expert administrations irrelevant to the review.

The reviewer is disallowed from giving well-qualified assessment or other master administrations or going about as a lawful delegate of his client to advocate for the client's revenue in a suit or an administrative or managerial procedures or examination. A reviewer's freedom isn't hindered in the event that he is giving a genuine declaration or records.

viii. Actuarial Administrations.

The principles will restrict a reviewer from giving to a review client any actuarially arranged warning assistance including the assurance of sums kept in the fiscal reports and related represents the review client except if it is sensible to presume that the outcomes won't be likely to review technique during a review of the client's budget summary. Nonetheless, the examiner might help the client in grasping the techniques, models suppositions and information utilized in figuring a sum.

ix. Internal review reevaluating administrations

Sarbanes Oxley (SOX) rules denies the outside reviewer from giving any inward review administration except if it is sensible to close such outcomes won't be liable to review strategy during a review.

Theoretical Framework

This article is commenced on Organization Hypothesis. Organization Hypothesis (Watts and Zimmerman 1978, 1986a, 1986b) recommends that the examiner is selected in light of a legitimate concern for both the outsiders as well as the administration. An Organization hypothesis is a monetary hypothesis that sees the firm as a bunch of agreements among self - interest people. An organization relationship is made when an individual (the head) approve someone else (the specialist) to follow up for his benefit. Hence, there is the issue of risk sharing and conflict of interest evolving among the parties. According to this theory, the conflict arose become of separation of ownership and control. It is believed that the agent will be self – interest driven rather that the motive of maximizing profit for the principal. There is extensive data deviation between two gatherings. Subsequently, examiners effectively lessen office costs by diminishing this data imbalance and perpetually authoritative clash (Jensen and Meckling, 1976; Ng 1978; Baimar, Evans and Noel, 1987). A significant supposition inside the Organization Hypothesis is that the reviewer is autonomous and he gives a free assessment.

Empirical Review

Betty and Yunsheng (2016) examines whether the contributions of non - review administrations by inspectors hinder income quality. Involving bookkeeping preservation for procuring quality when SOX. The exact outcomes show that non - review administrations really do debilitate income before SOX, however yields no convincing outcomes whether the arrangement of non - review administrations influences profit quality. This outcome upholds the constructive outcomes of the guidelines of SOX in overseeing the autonomy of evaluators.

William and Patricia (2017) led an examination to find the impact of the Non-Review Administrations (NAS) and outer examiner freedom in a climate portrayed by low lawful security of minority financial backers and a high grouping of proprietorship and control. Logit models were used with control factors to distinguish perspectives connected with different wellsprings of dangers to freedom, the executives impact, and the work and chance of examining administrations. The outcomes demonstrate that the arrangement of NAS doesn't influence examiner freedom.

Madumere and Onwuchekwa (2020) analyzed the impact of evaluator's freedom on review nature of "recorded store cash banks in Nigeria." The number of inhabitants in this study contained fifteen (15) "recorded store cash banks in Nigeria." The examination configuration embraced in this study is the clear overview. Essential information was utilized for this review. The information was obtained from a five-point likert's scale survey controlled to the respondents. The information investigation strategies embraced are the distinct measurements and common least square (OLS) relapse. The discoveries demonstrate that client significance has a negative yet irrelevant relationship with review quality with a connection co-effective of (0.456) which suggests that a 1% increment in client significance will result to 45.6% lessening in review quality. Likewise, the connection between review firm revolution and review quality was positive and huge at 1%, 5%, and 10% importance level with review quality. Once more, the connection between non-review administrations and review quality is negative and genuinely huge while the connection between client alliance with review firm and review quality is negative and critical.

Onulaka, (2019) examined how outer reviewers' arrangement of Non-Review Administrations (NAS) to review clients influences evaluators' freedom and the review assumption hole in Nigeria. The review takes on an interpretive methodology. Thirty semi organized, eye to eye interviews were directed to investigate the perspectives on review accomplices and benefits store chiefs in Nigeria; bunch reactions were assessed and introduced independently. Subsequent to deciphering the meeting sound accounts, a topical information investigation of the two gatherings' reactions was performed. Translation of the meeting reactions demonstrates that inspectors respect the arrangement of NAS by review firms to their review clients as an issue of monetary need. In any case, it is additionally seen as obstructing examiners' freedom and expanding the hole between the evaluator and public assumptions. This study adds to the discussion encompassing the requirement for an autonomous body to supervise standard evaluating settings unmistakable from the ongoing practice to upgrade straightforwardness.

Nwafor and Amahalu (2022) analyzed the nexus between Reviewer's Autonomy and Review Nature of Cited Store Cash Banks in Nigeria. The review estimated Inspector's Autonomy utilizing the factors of joint review, arrangement of non-review administrations and evaluator's skill. Conversely, review quality then again was estimated utilizing consistence to examining rule. Three speculations were planned to direct the assessment and the authentic preliminary of limit checks was driven using Double Logit Relapse Model. The exploration configuration utilized is “Ex Post Facto plan and information for the review were acquired from the Nigeria Stock Trade Factbook, Yearly Reports and Records. The discoveries of the review showed Joint Review and Examiner's Skill have a critical and positive relationship with on Consistence to Evaluating Rules,” while, then again, Non-Review Administrations have a huge however regrettable relationship with Consistence to Evaluating Rules of cited recorded Store Cash Bank in Nigeria at 5% degree of importance. In light of this, it was suggested among others that there is need for examiners to consistently get instructional classes on contemporary evaluating rules/guidelines that would demonstrate helpful to their reviewing rehearses, accordingly enhancing the nature of review.

Methodology

This study utilized a descriptive survey research approach. Descriptive survey research design, according to Lawrant (2018), is the one in which a group of people or thing is researched by gathering analyzing data from just a few persons or items assumed to be representations of the whole group. This design is suited for this research as information will be acquired from a sample of the population (managers of the bank), who are acquainted with the concepts relevant to the objective of the study to generalize the findings for the full population.

“The population of the research consists of all 24 commercial banks that are listed on the floor of the Nigerian Stock Exchange (NSE) as at 31st December 2022.” A systematic sampling procedure was employed to choose the sample size. To calculate the sample interval, the population of the research –24, was divided by the sample size -2. After the division, 12, was arrived at as the sample interval. The 1st subject was randomly selected from the 2nd units to serve as the starting point on the population list. Then the researcher selects every even unit after the first. This gave the sample list comprising the “2nd, 4th, 6th, 8th, 10th, 12th, 14th, 16th, 18th, 20th, 22nd and 24th subjects on the population list. These are: Access Bank Plc; Eco Bank Plc; FCMB Bank Plc; Fidelity Bank Plc; First Bank Plc; Guaranty Trust Bank Plc; Stanbic IBTC Plc; Sterling Bank Plc; Union Bank Plc; United Bank of Africa Plc; Wema Bank Plc; Zenith International Plc.”

A structured Questionnaire was employed for data gathering. The instrument “consists of four (4) parts, namely, Section A, B, C, and D. Section A assessed the demographic factors of the respondents, Sections B, C, and D consisted of a 6-items” measuring taxation services, management advisory services, and auditor independence respectively. The poll depended on a four (4) point Likert scale, going from emphatically differ to concur unequivocally. The examination questions were responded to and speculations tried utilizing Pearson Item Second Connection (PPMC), at 0.05 degree of importance. If calculated r-value is greater than 0.5 it was interpreted as strong relationship, while r-value lower than 0.5 was interpreted as weak relationship. For the hypotheses, otherwise, accept the null hypothesis.

Analysis and Results

1 Research Questions

Research Question 1

What is the relationship between taxation services and auditor independence of quoted deposit money banks in Nigeria?

Table 1: Pearson product moment correlation analysis on the relationship between taxation services and auditor independence

VARIABLE		Taxation services	Auditor independence
Taxation services	Pearson Correlation	1	.737
	Sig. (2-tailed)		.000
	N	36	36
Auditor independence	Pearson Correlation	.737	1
	Sig. (2-tailed)	.000	
	N	36	36

Table 1 above shows Pearson Product Moment Correlation analysis on the relationship between taxation services and auditor independence of "quoted deposit money banks in Nigeria." The correlation coefficient (r) between taxation services and auditor independence is .737, which indicates positive strong relationship. This implies that the relationship between taxation services and auditor independence of "quoted deposit money banks in Nigeria" is strong and positive.

Research Question 2

What is the relationship between management advisory services and auditor independence of quoted deposit money banks in Nigeria?

Table 2:Pearson Product MomentCorrelationanalysis on the relationship between management advisory services and auditor independence

VARIABLE		Management advisory services	Auditor independence
Management advisory services	Pearson Correlation	1	.671
	Sig. (2-tailed)		.000
	N	36	36
Auditor independence	Pearson Correlation	.671	1
	Sig. (2-tailed)	.000	
	N	36	36

Table 2 above shows "Pearson Product Moment Correlation analysis on the relationship between management advisory services and auditor independence of quoted deposit money banks in Nigeria." The correlation coefficient (r) between management advisory services and auditor independence is .671, which indicates positive strong relationship. This suggests that the connection between the executives warning administrations and examiner autonomy of cited store cash banks in Nigeria is solid and positive.

2 Testing Hypotheses

Hypothesis 1

HO_1: There is no significant relationship between taxation services and auditor independence of quoted deposit money banks in Nigeria.

The result in Table 1 above shows the Pearson product moment correlation analysis on the relationship between taxation services and auditor independence. The result revealed that the alpha value between taxation services and auditor independence at r=0.737 and n=36, was 0.00. Since, the value is less than the critical value ($p<0.05$), then the null hypothesis is rejected. Thus, there is a considerable link between taxation services and auditor independence of listed deposit money banks in Nigeria.

HO_2: There is no significant relationship between management advisory services and auditor independence of quoted deposit money banks in Nigeria.

The result in Table 2 illustrates the Pearson Product Moment Correlation study on the association between management advice services and auditor independence. The result revealed that the alpha value between management advisory services and auditor independence at r=0.671 and n=36, was 0.00. Since, the result is smaller than the critical value ($p<0.05$), then the null hypothesis is rejected. Thus, there is a considerable association between management advice services and auditor independence of listed deposit money banks in Nigeria.

Discussion of Findings

The results on taxation services and auditor independence indicated that the association between taxation services and auditor independence of recorded store cash banks in Nigeria is huge and great. Likewise, the end from speculation one showed that there is a significant relationship between tax collection administrations and examiner freedom of recorded store cash establishments in Nigeria. These results complement Betty and Yunsheng (2016), who revealed that non-audit services had a substantial link with auditors' independence in SOX.

The results on management advice services and auditor independence indicated that the association between management advisory services and auditor independence. This is in accordance with Madumere and Onwuchekwa (2020) who evaluated the influence of the auditor's autonomy on audit quality of listed banks that hold deposits in Nigeria and argued that the link between non-audit services and audit performance is unfavorable and of statistical significance.

Conclusion

Auditors owe their clients a duty of care. The attributes needed of an auditor include tact, prudence, firmness, good temper, honesty, discretion, industry, discernment, patience, clear-headedness, and dependability. This must be applied at all times. The research has proven that non-audit services (defined as taxes and management advice services) have a significant and favorable link with auditor independence of recorded store cash banks in Nigeria. The exploration has likewise settled a significant relationship between non-review administrations and evaluator freedom of determined store cash establishments in Nigeria.

Recommendation

Based onthe findings, the following recommendations were given:

i) Auditors in Nigerian deposit money banks should strive to limit the non-audit services rendered to their clients to boost the quality of audit work.

ii) Auditors should take appropriate safeguards concerning client affiliation with the audit firm, as this can negatively affect audit quality.

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