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THE NEXUS BETWEEN AUDITORS' INDEPENDENCE AND FINANCIAL REPORTING QUALITY OF LISTED COMPANIES IN NIGERIA: A LITERATURE REVIEW APPROACH

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ABSTRACT

The aim of audit is to ensure that all stakeholders have access to reliable and credible financial information because the report forms the basis for economic and non-economic decisions made by shareholders and other stakeholders. Principally, this paper examined how auditors' independence affects financial reporting quality listed companies in Nigeria. The inductive approach used in this paper entails the surveying, studying, comparing, and summarizing of all papers published in prominent Journals from year 1999 to 2021 and this is because the nature of extant papers during the pre-Enron era was compared with papers during the post Enron era till date. Thus, the first aim of this paper is to discuss the importance of auditing and review theories that supports and necessitates the auditing profession. Secondly, the paper examined the determinants of auditors' independence (audit fees, audit firm size, non-audit fees, auditors' tenure, cultural factors and psychological factors). Thirdly, the study also considered the effect of auditors' independence on financial reporting quality. The review and analysis of literature reveal that there is a significant relationship between auditors' independence and financial reporting quality. Also, suggestions for further studies and recommendations were enumerated in the study.

Keywords: Auditors' independence, financial reporting quality, listed companies, review

INTRODUCTION

The ultimate aim of financial reports is to furnish the users of accounting information with faithful and reliable information regarding economic entities, essentially monetary in nature which is needed for making economic decisions. Providing high-quality financial information is mandatory and essential because it will genuinely guide investors and other parties connected to an organization in making informed investment decisions, thereby enhancing overall market efficiency (Beest, Braam & Boelens, 2009).

In addition to informing the users of financial statements regarding the financial health of an organization, financial accountability also serves as a support for the formulation of a financial plan, evaluation, and decision making, thereby creating opportunities for organizations to raise capital (Tang, Chen & Lin, 2016). Therefore, it is essential to guarantee that financial reports reflect how diligently and ethically the management of companies have discharged their fiduciary duties and responsibilities.

External auditors perform independent checks on reports prepared by the management of an organization, since the management of a firm is separated from the ownership. Thus, auditing is aimed at ensuring transparency and accountability as well as adding credibility to the entire reporting process. In public or limited liability companies, shareholders employed the directors to manage the organization on their behalf (Akpan & Adebisi, 2014). This segregation of ownership and management gave rise to the issue of accountability.

Accountability can be described as the responsibility of an individual or organization to give stewardship account of their activities and ensure the disclosure of the results in an unambiguous manner, in the same vein, it entails the responsibility for funds or entrusted assets (Mulyadi, 2014). Therefore, the directorate of an organization is answerable to the shareholders of an organization by producing a yearly financial statement. The financial statement is the main medium through which management performance is reported. For this reason, a financial statement audit was birthed. It is also important to note here that other stakeholders depend on the financial statement in making economic decisions (Jerry & Saidu, 2018). For example, potential investors base their investment decisions on the financial indicators obtained from the financial statement. So also creditors especially banks will want to make informed decisions as regards granting a loan to an organization based on the audited financial statement of the organization (Austin & Herath, 2014). Therefore, financial reports serve as the management's annual stewardship report to the shareholders or owners, thereby necessitating the generation of an audit report to verify or certify the various financial assertions of the management (Bala, Amram & Shaari, 2018).

A statutory audit is carried out to produce an opinion as to whether the audited financial reports are prepared in conformity with a standardized criterion. Typically, the criterion includes generally acceptable universal accounting principles, together with the national accounting standards applicable in the reporting entity's country. (Arens, Elder & Mark, 2012).

Mandatory audits are generally performed by firms of professional accountants who are practitioners in financial reporting and it is basically, one out of many assurance services provided by accounting firms (Fairchild, 2008). The audit of the financial statement is essential for enhancing the quality and credibility of financial reports for reliability purposes (Suyono, 2012).

It is pertinent to note that, there are huge instances of reported audit failure on a global scale, even though financial statement audits are meant to strengthen the authenticity of financial reports and Nigerian companies are not exempted from the global menace (Okaro, Okafor & Ofoegbu, 2013).

For instance, in the year 2009, intercontinental bank, Afri-bank, Fin-bank, Union bank, and Oceanic bank failed to pass the Central Bank of Nigeria's distress test barely a few months after being certified credible by their auditors, yet the banks were plagued with grossly understated non-performing loans in their financial reports. It was also observed that the going concern status of the banks was questionable (Ande, 2011).

In addition, another example of reported audit failures in Nigeria involves Lever brothers, the African petroleum company, Ile-Oluji cocoa product and Cadbury Nigeria which was the most significant audit failure in Nigeria at that time because its share price crashed from ₦65.52 in December 2005 to ₦8.65 as at October 2009, which made investors lose billions of naira (Osisioma, 2010; Okaro *et al*, 2013).

Thus, these scandals and other international corporate scandals like the Enron scandal had a huge impact on the auditing service industry, thereby making various stakeholders question the integrity and the credibility of financial reports produced by corporate organizations and specifically the financial services sector, majorly the Deposit money banks and investment banks, which have been assumed to be free of scandals (Moore, Tetlock, Tanlu & Bazerman, 2006). The issue of ethical integrity within the financial services sector has been insufficiently represented in academic studies, despite the occurrence of these scandals. (Chu, Du & Jiang, 2011).

In view of the above submissions, one question that comes to mind is the reason why companies are failing despite being given a clean state of financial health and if companies are failing, then the reliability of such reports is questionable (Enofe, Aronmwan & Abadua, 2013).

In other words, a reliable financial report is very essential to the decisions made by stakeholders and a financial report is regarded as quality if it possesses all the fundamental and enhanced financial reporting quality (Moore, Tetlock, Tanlu & Bazerman, 2006). Therefore, statutory audit entails providing a rational basis for the users to have confidence in the audited financial statement and one of the fundamental qualities needed by auditors to carry out this task is Auditor's independence (Okolie & Agboma, 2008).

Auditor independence is universally defined as the keystone of the auditing profession since it is the bedrock of the public's faith in the accounting profession (Lindberg & Beck, 2004). Since 2000, series of phenomenal accounting scandals have drawn the profession into the limelight, adversely affecting the public impression of auditor independence (Farouk & Hassan, 2014). Therefore, it is essential for auditors to pre-empt the likelihood of risk inherent in their duties as they can be incriminated by clients for criminal offenses and civil offenses like insider trading or recklessly including a misleading report in the financial statement. Thus, many investors in the past and today are yet to recover the financial loss from investment decisions they made based on audited financial statements, because the audit report serves as the channel through which the auditor discloses his opinion on the financial statement scrutinized by him and the opinion being disclosed is perceived to be free from bias and influence (Osaze, 2011). It is therefore pertinent for auditors to exercise due care, diligence, skill and adhere strictly to universally acceptable auditing standards in the execution of every audit engagement (Chu, Du & Jiang, 2011).

In Nigeria, every corporate organization is statutorily required to nominate an external auditor who is expected to examine and give an honest opinion as to whether the financial report shows a true and fair view. The principal regulatory law that is encumbered with the registration and administration of companies in Nigeria is the Companies and Allied Matters Act Section 357 of (CAMA), 2020 which states that,

"*It shall be the duty of the company's auditors in preparing their report to carry out such investigation such as to whether 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 and whether the information given by the director's report for the year's report which the accounts are prepared is consistent with the records and books of account.*"

Based on the duties expressed above, auditors are charged with the task of obtaining the entire necessary document, needed for them to form an unbiased opinion, regarding their audit client. Thus, the responsibility now hangs on the auditor to discharge his duties autonomously both in mind and appearance in order to live up to the expectations of the end-users of financial statements (Akpan & Adebisi, 2014).

Many studies have examined auditors' independence and the factors that have been examined are the effect of management advisory services or consultancy services on auditors' independence (Wu & Ying, 2016; Lim & Tan, 2008; Frankel, Johnson & Nelson, 2002; Adeyemi & Okpala, 2011); The provision of consultancy services on auditors' independence (Gul, Tsui & Dhaliwal, 2006; Abu-bakar & Ahmad, 2009). Thus, the majority of studies on auditors' independence only focused on the threats to Auditors' independence without relating it to how independence can affect the super eminence of financial reports which is the primary aim of auditing financial statements. Therefore, this study investigated the relationship between auditor's independence and financial reporting quality of listed companies in Nigeria.

OBJECTIVES OF THE STUDY

1. The first aim of this paper is to discuss the importance of auditing and review theories that supports and necessitates the auditing profession.
2. Secondly, the paper examined the determinants of auditors' independence (audit fees, audit firm size, non-audit fees, auditors' tenure, cultural factors and psychological factors).
3. Thirdly, the study also considered the effect of auditors' independence on financial reporting quality.

Auditing

An audit is an "independent examination of financial information of any entity, whether profit oriented or not, irrespective of its size or legal form when such an examination is conducted with a view to express an opinion thereon (Oyebolu, 2009). Auditing also attempts to ensure that the books of accounts are properly maintained by the concern as required by law. Auditors consider the propositions before them, obtain evidence, and evaluate the propositions in their auditing report.

Audits provide third-party assurance to various stakeholders that the subject matter is free from material misstatement. The term is most frequently applied to audits of the financial information relating to a legal person. Other commonly audited areas include secretarial and compliance, internal controls, quality management, project management, water management, and energy conservation. As a result of an audit, stakeholders may evaluate and improve the effectiveness of risk management, control, and governance over the subject matter.

3.1 Do audit objectives and duties protect shareholder's interest?

The nature of auditors' duties

Decades back auditors' report are meant only for shareholders of the company, however auditors are now only responsible to the SHs of the company but also to all who has one connection with the company in which the auditor is reporting on. For example, Lee (1986) opined that the auditor's level of responsibility can be grouped into three;

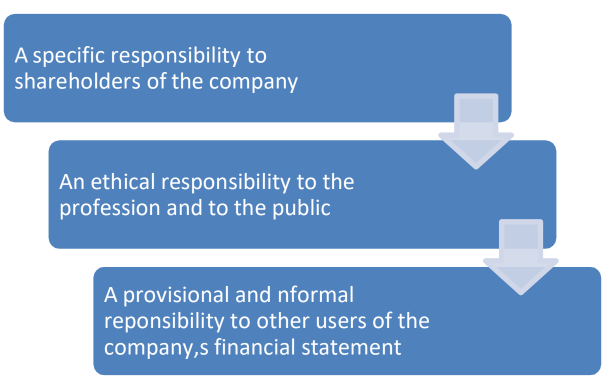

Figure 1: classification of auditors' responsibilities

In the light of above, the users of the financial statements include; both present and potential investors for investment decisions by assessing their profitability and stability ratios and also assessing their ability to pay dividends; employees use it for evaluating their employer's stability and profitability; creditors and suppliers for assessing the liquidity and going concern of the company; customers for assessment of the company's continuity and social responsibilities; government and their agents use them for regulation and tax purposes. Therefore, the statutory duties of an external auditor include the expression of opinion on the truth and fairness of the financial reports. It also entails the prevention and detection of fraud.

Auditors' Independence

Maury (2000) defined an auditor's independence as the attribute and quality of being free from control, undue pressure, and dominance of the third party. Similarly, Sridharam, Caines, McMillian, and Summers (2002) defined auditor's independence as the upholding of an unbiased and even-handed mental disposition throughout the audit of a client. As a matter of fact, if the auditor lacks independence, the incentive to conduct a high-quality audit is reduced or watered down as discovered misstatements will not be reported (Pike, 2003).

Therefore, a statutory audit is undertaken by an independent auditor who is free from the influence of the directors of a company or management because independence is the most essential professional behavior to be exhibited by an external auditor.

Furthermore, Abu-Bakar and Ahmad (2009) recognized independence as the highest professional attitude to be upheld by auditors in all situations.

The Auditing Practices Board (2008) defined independence as liberty from circumstances and relationships that can make a rational and enlightened third party deduces that the objectivity of the auditor is impaired or might be impaired. Thus, independence pertains to scenarios emanating from the audit which could be financially inclined, business-related and interpersonal relationships between the external auditors and their auditees, while objectivity is a function of auditors' professional skepticism and behavioral dispositions.

The concept of auditors' independence has been referred to as the fundamental or focal point of auditing theory and the mainstay of auditing practices (Patel & Psaros, 2000). Also, extant studies described auditors' independence as avoiding all threats that can impair or jeopardize the auditors' ability to make an unbiased opinion about an entity.

Olagunju (2011) also referred independence to as measures taken by the auditors to steer clear from circumstances and individuals that can influence their professional behaviour or judgements. Aderibigbe (2005), auditors' independence in two different ways, the first definition defined independence as the absence of a personal relationship between the auditors and the auditee, while the second definition connotes freedom in executing the duties, rights, and power of the auditor.

Therefore, auditors' independence safeguards objectivity and enforces confidence and assuredness in the end-users of financial statements (Alaraji, Al-Dulaimi, Sabri& Ion, 2017).

In addition, Auditor's independence can be illustrated in three ways which are, programming, investigative and reporting independence. Programming independence enables the auditors to select the best audit approach during the audit assignment and this implies that auditors must discharge their duties freely without any prejudice (Dunn, 1996).

Thus, the auditing profession is an evolving one with upgraded skills and strategies being constantly introduced and developed by the profession. Though the programming independence assists the auditor in choosing the best approach, but the investigative independence informs the manner and way the audit objectives will be achieved, bearing in mind to choose approaches that suit each audit engagement.

In addition, reporting independence enables the auditor to disclose any information of topmost importance to the investment decisions of shareholders and the public. Consequently, this phase of the auditors' independence is the most compromised phase as the auditor is torn between reporting fraudulent practices of the directors if any and been pressurized by the directors not to disclose such information (Olagunju, 2011).

Another factor that affects reporting independence is the ambiguity and interpretation of auditing standards issued by regulatory bodies, which are intended to guide the auditors, but the complexity of the standard which includes specialized terminologies have reduced the auditors' report to an allegorical report rather than a means of channeling information to the shareholders (Dunn, 1996; Rogers, Ssekiziyivu, Bananuka & Namusobya, 2018).

According to Williams (2003) auditors' independence will not be compromised if the principal-agent relationship is sustained in auditing which binds the interest of the auditors to that of the owners of the company, as opposed to the traditional meaning of auditing which is simply relational rather than stating in clear cut terms the specific duties of auditors which they will be liable for.

Types of independence

The International Federation of Accountant (IFAC) the Code of Ethics for Professional Accountants classified independence into two categories namely, "independence of mind and independence of appearance."

Firstly, independence entails independence in mind, IFAC, 2004 defined as a

"State of mind that (1) unaffected by influences that might compromise professional judgement and that (2) allows an individual to act with integrity and to exercise objectivity and professional skepticism" (IFAC, 2004).

Independence of mind is also referred to as the "independent of fact". Eilifsen, Messier, Glover and Prawitt (2000) affirm that auditors must be permitted to unreservedly express their point of view on the financial statements of their clients without any iota of pressure, which can inhibit their capability to adequately perform their duties.

Church, Jenkins, McCracken, Roush, and Stanley (2015) attest that independence of fact will be jeopardized if auditors with irrational self-interest disdain, obscure and misrepresents their evidence and findings (Lindberg & Beck, 2004). Independence in fact can also be called the actual independence of the auditor.

Secondly, independence also includes independence in appearance which can be described as "the avoidance of significant facts and/or circumstances that would reasonably cause a rational and informed third party to conclude that a firm's (or member of the assurance team's, integrity, objectivity or professional skepticism) had been compromised" (IFAC, 2004). Independence in appearance as suggested by Eilifsen, Messier, Glover and Prawitt (2009) implies the appraisal of auditors' independence from the perspectives of stakeholders. This connotes that if stakeholders presume that the auditors lack independence based on facts or circumstances that appear to be incongruent with universally accepted auditing practices even though his independence of mind is intact, then the assurance he was supposed to offer is nullified (Akther & Xu, 2020).

Determinants of auditors' independence

Most empirical studies on auditors' independence focused upon factors which tend to be threats to auditors' independence. Many studies have been able to establish the relationship between these factors and its impact on auditor4s' independence. Among the factors that affect auditors' independence that have been studied are (a) the effect of non – audit services on auditors' independence by (Wu & Ying, 2016; Adeyemi & Okpala, 2011). (b) The impact of auditors' tenure on auditors' independence by (Siregar, Amarullah, Wibowo & Anggraita, 2012). However, the focus of this study will be on seven of those determinants which seems to be the most essential elements affecting the auditor's independence and they include (i) larger proportion of audit fees (ii) provision of non- audit services to audit client (iii) psychological factors (iv) the degree of reliability of the audit committee (v) a longer duration of audit-client service.

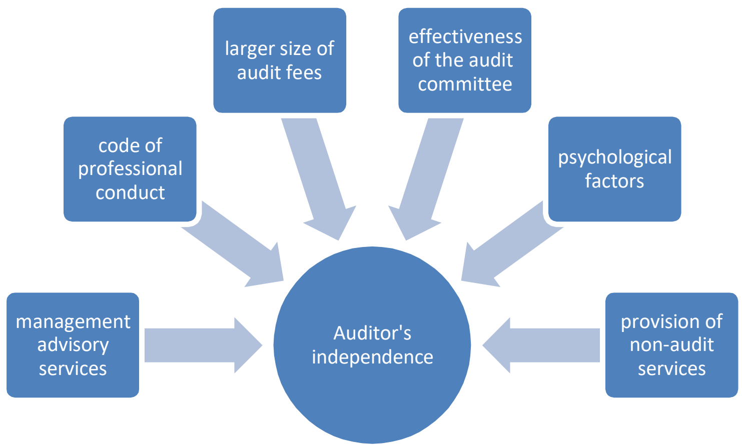

Figure1 Determinants of auditors' independence

Financial reporting entails the publishing of financial and non-financial information to all stakeholders regarding the financial performance and financial status of the organization over a particular timeframe, needed to make economic decisions and assessing the performance of the management (Enofe, Aronwam & Abadua, 2013). These stakeholders include – potential shareholders, suppliers, the public and the government. The frequency of financial information publication for listed companies is quarterly and yearly.

Financial reporting is generally referred to as the final product of accounting information and the normal parts of financial reports are statement of financial position, income statement, statement of cash flows and information on the ownership structure, additional information, and analysis (Gaynor, Kelton, Mercer & Yohn, 2016).

> International Accounting Standard Board (IASB), the main aim of financial reporting is "to *provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions.*"

Similarly, it is also a means of furnishing the management of a company with information needed for the motive of planning, evaluation, setting standards and decision making. It also helps investors, promoters, debt provider and to make rational and prudent decisions regarding investment (Eriabe & Izedonmi, 2016). It also enlightens the shareholders and the public at large about the different areas of an organization, including information on the financial resources of an organization and how these resources have been changed over time.

THEORETICAL REVIEW

This section reviewed theories that are relevant in examining the relationship between auditors' independence and financial reporting quality in Nigeria and they include, stakeholders' theory and lending credibility theory.

Stakeholder Theory

One of the criticisms of shareholders' Theory is that it focuses only on the shareholders as the sole asset claimant in a company especially when the company is under a financial duress like bankruptcy or liquidation. Also, critics argue that its scope is narrow since it views the activities of the firm from the perspective of the shareholders only. However, an alternative theory known as the Stakeholder Theory proposes that a firm's activities should be based on a lengthy and wider ranging perspective (Freeman, 1984). The theory suggest that the significance of corporate activity is not only for the benefit of the shareholders, but also for the benefit of all relevant stakeholders (including the shareholders) and it is all these relevant stakeholders who should be the main remit of the „modern" firm (Freeman, 1984; Jensen, 2001).

Furthermore, it argues that firms should be managed in such a way that they coordinate the diverging interests of their numerous stakeholders including employees, shareholders, customers, suppliers, the government, and society in general. This consideration should thus impact upon the formulation of the corporate strategy of the organization (Marcoux, 2003). And asides policy formulation, the quality of financial reports used as a basis for economic decisions by these stakeholders should be given the topmost priority.

However, for the purpose of this study, it is assumed that organizations have a duty to safeguard the interests of all stakeholders; though researchers are still be confounded by the problem of trade-offs involving the conflicting interests of all the stakeholders and the stakeholder theory is very essential in the context of a range of discussions on financial reporting quality which spans from earnings management, green accounting, qualitative characteristics of financial reports and down to the causal effect of a poor financial reporting quality on the various stakeholders' financial and non-financial decisions.

The lending credibility theory

The lending credibility theory arose from the increasing separation of ownership (shareholders) and management of corporate entities, and the perceived potential conflict of interests. Management, free from the restraining influence of owners, was seen as likely to provide biased information, giving the most favourable view possible of their own performance and the success of the company. Auditors were regarded as necessary to verify that the financial statements were, in fact, fair and unbiased, and therefore could be relied on for decision-making purposes.

This theory was developed by Limperg in the year 1920 to inspire confidence in financial statements of an organization. The theory states that the primary function of the audit is to add credibility to the financial statements and this theory was popularized by the acceptability and endorsement statements from -the professional bodies.

The theory assumes that confidence in financial statements is increased upon relying on audited financial statements rather than the unaudited financial statements presented by the management team of the organization. Thus, in order to satisfy organizations' stakeholders, the financial statements have to be audited (Kruger & Rooyen, 2016). The lending credibility theory also assumes that the primary function of the audit is to add credibility to the financial statements. In this view, the auditor's service selling point to the clients is credibility. Audited financial statements are seen to have elements that increase the financial statements users' confidence in the figures presented by the management.

Prior to the Enron scandal, most literatures on auditors independence were more on audit fees, low balling, Non-Audit service, Audit committee independence etc. preceding the year 1981, researchers allege that the firm size does not affect the Audit Quality but a study done by De Angelo (1981) countered this view with the notion that large audit firms have more to lose by failing to report a discovered breach in a particular client's record, Whereas, small and medium firms have less clients to loose. In support of Deangelo's study, Gul (1989) examined the effects of audit committee, client financial condition, and audit firms' size on New Zealand Bankers' perceptions of auditors' independence using ANOVA and the results from the study suggest that firms providing MAS as a separate division in the audit firm are perceived as a lower risk of losing independence. While small audit firms were perceived to be more at risk of losing independence than large audit firms.

So also, another study done by De Angelo (1981) investigated the relationship between lowballing and Auditors' independence and the impact of disclosure regulation using modelling. According to the result from the study lowballing does not impair auditors' independence, which was in contrary to allegations made by the Securities and Exchange Commission on audit fees and auditors' independence.

A cross-cultural study on perceived Auditors' independence and cultural differences across United Kingdom, India and Malaysia was done by Patel & Saros (2000). The authors investigated the perception of final year undergraduate students in Accounting and recommended that a global set of audit procedures and codes of professional conduct is needed in order to resolve cross-cultural differences. With the introduction of IFRS and ISA most countries of the world have been able to cross that bay of cultural differences.

Literatures and research during the pre-Enron era were more on factors like Audit committee (AC), board size and board independence for instance, Klein (2002) did a study on Economic determinants of Audit Committee Independence and found out that audit committee independence increases with board size and board independence. An effective audit committee with qualified members will strengthen the activities Auditors. One of the essential attributes on an effective audit committee is diligence. Asides diligence, other factors that affects the effectiveness of the audit committee as identified by DeZoort, Hermanson, Archambeault and Reed (2002) includes audit committee composition, authority, and resources.

EMPIRICAL REVIEW

Literature Review on Pre-Enron Era (1970-2001)

Authors & Title	Objectives	Description of variables	Methodology	Related findings
Bolten, S. E., & Crockett Jr, J. H. (1979). How independent are the independent auditors?	To examine two indications of auditors independence which includes willingness of auditors to qualify their opinions and the tendency of clients to switch auditors	Qualified opinions and Auditors' switch	Survey	The results from the study indicate that clients will likely switch auditors' with consistent history for qualifying audit opinions for auditors that hardly qualify audit opinions.
Pany and Reckers (1980) The effect of gifts, discounts, and client size on perceived auditor independence.	To determine Stockholders' perception of auditor independence	Size of the client, purchase discount and gift	Survey	The result indicate that, the client size cannot impair auditor's independence
DeAngelo, L. E. (1981). Auditor independence, 'low balling', and disclosure regulation.	To know if 'low balling' on initial audit engagements impairs auditor independence	Client-specific quasi rents and low balling	Modelling	The results show that anticipated quasi-rents reduces the auditors' independence, thereby leading to low balling in the previous period to gain incumbency
Watts, R., & Zimmerman, J. (1981). The markets for independence and independent auditors.	The aim of the paper was to analyze the evolution of corporate auditing as a voluntary service or as a legally mandated service and to investigate incentive behind auditors' independence	Voluntarily supplied audit and auditors' independence	Modelling	The study concluded that market discipline mechanism that aid auditors with incentive to be independent and competent has been in existence for over six years.
Dykxhoorn, H. J., & Sinning, K. E. (1981). Wirtschaftsprufer perception of auditor independence.	To ascertain the perception of German auditors concerning foreign auditors' independence	Auditors' independence	Survey	The results of the survey show that, on the whole, most German auditors take a less strict view of auditors' independence than does the SEC. Since the SEC rules on independence are, with minor exceptions, applicable to all auditors of SEC registrants, it seems that it is important that foreign auditors be made aware of the specific SEC rulings.
Audit Conflict: An Empirical Study of the Perceived Ability of Auditors to Resist Management Pressure: Michael C. Knapp(1985)	The objective of the study was to ascertain stakeholders' perception of auditors to counter clients' pressure	The level or competition in the audit market and clients' financial position	Experiment	The results indicate that fierce competition in the audit market decreases the chances of auditors to oppose pressures from the client. Also, based on the perception of stakeholders, auditors might find it difficult to counter clients with good financial position.

Authors & Title	Objectives	Description of variables	Methodology	Related findings
Jackson-Heard, M. F. (1987)	To ascertain the effect of the audit committee and other factors on auditors' independence	Audit committee and external auditors' independence	Survey	The results indicated that audit committee does not enhance the perception of auditors' independence
Farmer, T. A., Rittenberg, L. E., & Trompeter, G. M. (1987). An investigation of the impact of economic and organizational factors on auditor independence.	To ascertain auditors' perception of independence and audit judgement.	Potential lawsuit, auditors' rank and fear of losing clients.	Experiment	Managers and audit partners indulge clients than the senior and junior staffs in the audit team
Gul, F. A. (1989). Bankers' perceptions of factors affecting auditor independence.	The study examined the effects of audit committees, client financial condition, management advisory services, competition and audit firm size on New Zealand bankers' perceptions of auditor independence.	Management advisory services Audit committees	ANOVA repeated-measures block design	The result shows that audit committees and client financial condition did not affect perceptions of auditor independence.
Magee, R. P., & Tseng, M. C. (1990). Audit pricing and independence.	The aim was to explore the impact of an auditor's value of incumbency on the reporting decision of the auditor	Quasi-rent	Modelling	Based on the analysis, value of incumbency cannot impair the auditors' independence except if there is a major reporting disagreement between the auditor and the client.
Lynn Barkess & Roger Simnett (1994) The Provision of Other Services by Auditors: Independence and Pricing Issues.	The aim was to determine the relationship between audit fees and fees paid for other services	Audit fees Audit fees for other services	Backward stepwise regression	The analysis from the study show that there is a positive relationship between audit fees and fees for other services
Craswell, A. T. (1999). Does the provision of non-audit services impair auditor independence?	The aim of this paper was to investigate the association between the provision of non-audit services and auditors' reporting opinions.	Non-audit services Reporting opinions	Modelling	The results from the analysis suggest that non-audit services do not impair auditors' independence and reporting opinions.
Patel, C., & Psaros, J. (2000). Perceptions of external auditors' independence: some cross-cultural evidence.	The aim of the paper was to ascertain the perception of final year students in different cultural dispensations regarding e	Cultural differences	Survey	The result indicates that there are significant differences among final year undergraduate Accounting students' (United Kingdom, Australia, India, and Malaysia) opinion with respect to auditors' independence.

Source: Researcher's Analysis

One of the biggest scandals in the 1990s before Enron was that of a waste management corporation based in Houston, a publicly traded company. The management of the company reported I.7 billion dollars as fake earnings even with their accounts being audited by Arthur Anderson. The company and their Auditors were penalized. Most of the scandals during the 1990s were attributed to poor audit quality and ineffective audit committee. For instance, Carcello & Neal (2000) examined the relationship between the composition of financially distressed audit firms' audit committee and the likelihood of receiving going concern reports. Their findings indicated that there's a correlation between higher percentage of affiliated director in an audit team and the lower probability that the Auditor will issue a going concern report. The Enron case triggered lots of reactions from the regulatory bodies like International Organization of Securities Commissions to issue a statement in October 2002 on principles of auditors' independence and corporate governance with the main objective of overseeing the quality and credibility of an Organization's financial reporting.

LITERATURE REVIEW ON THE POST ENRON ERA (2002-2021)

The post-Enron scandal overturned the tune and the focus of research on auditing entirely and the post Enron era is from year 2002 till date. For instance, most researchers began to probe the quality of audit and the independence of the Auditors by examining those factors that can impair the auditors' independence because once the independence of the auditor is eroded, the audit quality will be substandard and invariably, the financial reports will become unreliable. The determinants of auditors' independence identified by researchers are the provision of management advisory services/non-audit services to the same audit client, long auditor tenure for the same audit client, audit committee, size of the audit firm etc. The most prominent determinant among the afore-mentioned factors is the provision of NAS/MAS to the same audit client and it has been studied by various researchers in different jurisdictions.

The purveying of NAS/MAS to the same audit client has been an issue of concern in the auditing world and it has also been swimming in the pool of controversies for decades and it became more prominent because of the Enron scandal. For example, Ashbaugh, Lafond & Mayhew (2003) re-examined the study done by Frank et al and found out that their claims on the fact that the provision of more NAS/MAS inhibits or impairs auditors' independence does not hold water. According to their study, NASMAS does not impair auditors' independence. In the same vein, Brandon, Crabtree & Maher (2004) investigated the relationship between the provision of NAS and Bond rating, the result showed that there is no relationship between NAS and bond rating.

Other studies on auditors' independence focused on other factors like competition, opinion shopping, audit client financial status asides NAS were analyzed by Umar and Asokan (2004) using factor analysis in analyzing data generated from USA and Australia, the result from their study indicated that pressure to retain the client is a major strain on Auditor's Independence. Jere and Martin (2010) reviewed research on non-audit service for the past 40 years and concluded that there is no smoking gun evidence to the fact that provision of non-audit services affects audit quality but can affect stakeholders' perception of auditors' independence. Even though there are obvious reasons why auditors should be prohibited from providing non-audit services/management advisory services to the audit client, most accounting standards still holds the view that NAS does not affect audit quality. The most recent corporate failure in United Kingdom is the case of British homes stores also called BHS collapsed in the year 2016 after it was sold to Dominic Chappel in 2015 (Ezejiofor & Erhirhie, 2018).

Analysis of related studies on Auditors' independence and financial reporting quality

Authors/year	Objective	Types of data	Methodology	Context	Main findings
1. Okolie (2014)	To determine the effect of auditors' independence on audit quality.	Secondary data	Multivariate analysis	Nigeria	The results indicated that there is a negative relationship between auditors' independence and audit quality.
2. Norziaton & Muharam (2021).	To investigate the determinants of external auditors' independence among politically connected firms	Secondary data from 46 companies (2014 to 2018).	Multiple regression analysis	Malaysia	The findings indicate that, non-audit fees and audit committee intelligence influenced the auditors' independence, while audit tenure did not.
3. Kertarajasaa, Marwa & Wahyudi (2019)	To determine the effect of auditors' independence on audit quality.	Questionnaire	Multiple regression analysis	Indonesia	The result of the findings shows that the auditors' independence does not have an influence on audit quality.
4. Joseph, Nyor, & Ormin (2021)	To ascertain the combined effect of audit firm size, auditors' rotation and non-audit services on auditors' independence.	Secondary data from 13 listed Deposit Money Banks in Nigeria. (2006-2018)	Ordinary least square regression analysis	Nigeria	The results showed that audit firm size and auditor rotation are determinants of auditor's independence while non-audit services do not.
5. Bala, Afza & Amram (2018)	To investigate the relationship between auditors' independence (Audit fees) and financial reporting quality.	Secondary data from 88 listed companies (2012-2016).	Multiple regression analysis.	Nigeria	The result shows that large or higher audit fees are associated are associated with lower level of discretionary accruals and this imply higher reporting quality.
6. Brown, Falaschetti & Orlando (2010)	Auditors' independence and quality of information in financial disclosures: evidence for market discipline versus Sarbanes Oxley proscriptions.	Secondary data was obtained from 927 companies.	Ordinary least square	United states.	The result indicates that auditors' independence has a positive relationship with financial disclosures information.
7. Castillo-Merino, Matinez-Blasco & Garcia- Blandon (2019)	To determine the influence of auditors' independence (current and future non-audit on audit quality.	Secondary data from listed Spanish companies. (2005 to 2016).	Descriptive analysis and multiple regression analysis.	Spain	The findings from the study suggest that there is a negative relationship between future non-audit services and audit quality.
8. Tepalagul & Lin (2015)	To investigate the nexus between auditors' independence and audit quality.	Empirical papers from 1976-2013 were considered for the review.	Literature review approach	Nine leading journals.	Based on the review of literature, the authors found mixed evidence on the effect of auditors' independence on audit quality.
9. Kusuma & Sukirman (2017)	To ascertain the moderating effect of auditors' independence on the relationship between emotional intelligence, auditors' experience and audit quality.	Questionnaire	Multiple regression analysis	Indonesia	The findings suggest that auditors' independence strengthened the influence of emotional intelligence and auditors' experience on audit quality.

10. Haeridistia & Fadjarenie. (2019)	To analyze the effect of auditors' independence on audit quality	Questionnaire	Multiple regression analysis	Indonesia	The result from the study indicates that auditors' independence has an influence on audit quality.
11. Saidu & Jerry (2016)	To determine the impact of auditors' independence represented by audit firm size on financial reporting quality.	Secondary data was extracted from 33 listed insurance companies	Ordinary least square and Pearson correlation.	Nigeria	The study affirms that audit firm size has a positive and significant impact on financial reporting quality.
12. Austin & Herath (2014)	To review prior studies on auditors' Auditors' independence.	Survey of literature from 1992-2010	Literature review approach	3 leading journals	The study suggests that subsequent studies should focus on audit fees, low balling, non-audit services and litigation.
13. Wu & Ying (2016)	To ascertain factors that influence auditors' independence in China.	21 structured interviews.	Interpretive approach.	China	The study found that auditors' independence in China is influenced by pervasiveness of guanxi, low legal risk, and intense competition in the audit service market, qualified audit opinions and incentive to provide additional advice on financial reports.
14. Hamza (2018)	To evaluate the impact of corporate governance on auditors' independence.	Questionnaires were distributed to 104 respondents from 12 companies and 3 audit firms.	Sample T-test	Jordan	The result from the study affirms that, corporate governance principles have impact on auditors' independence in Jordan.
15. Babatolu, Aigienochuwa & Uniamikogbo (2016)	To ascertain the impact of auditors' independence (audit fees, audit firm rotation, audit firm size) on audit quality in listed Deposit Money Banks.	Secondary data was collected from 7 listed banks	Correlation and OLS regression analysis	Nigeria	The study showed that there is a positive relationship between audit fee, audit firm rotation an d audit quality. While there is a negative relationship between audit firm tenure and audit quality.
16. Johari, Sanusi, Rahman & Omar (2013)	To evaluate the effect of auditors' independence on ethical judgements.	Questionnaires were distributed to 184 auditors	ANOVA	Malaysia	The study measured auditors' independence using self-review threat, self-interest threat and familiarity threat as proxies. The result indicates that all the three proxies have an impact on ethical judgement.
17. Tahir & Hamid (2018)	Auditors' independence and ethical judgments: Evidence from Malaysia (2018)	200 questionnaires were distributed to respondents	Spear man's rank order correlation	Malaysia	The findings affirm that there is a significant negative relationship between intimidation threat and ethical judgement, while there is an insignificant positive relationship between self-review, self-interest and familiarity threat and ethical judgement.
18. Yen, Thuy, Tien, & Anh (2019)	To determine factors affecting auditors' independence using both quantitative and qualitative approach.	Survey	Factor analysis	Vietnam	The findings from the study showed that, corporate governance, audit tenure, auditing fees, auditors' tenure and non-audit service are major determinants of auditors' independence.

19. Mahdi Salehi & Zahra Dastanpoor (2021)	The effects of psychological factors on the performance of independent auditors in Iran	Survey	Simple and multiple regression analysis	Iran	The result of the study indicated that self-esteem, accountability pressure, self-efficacy, and spiritual intelligence contribute to the increase of efficiency in auditors, but emotional intelligence did not influence the efficiency of auditors.
20. Diana Mostafa, Mostaq Hussain, Ehab K.A. Mohamed (2020)	The effect of religiosity–morality interaction on auditor independence in Egypt	Survey	Factorial analysis	Egypt	The main findings indicate that there is a significant interactional effect between the degree of moral development and intrinsic religiosity on the degree of auditor independence, given the stimulating effect of the client's economic gestures/conditions.

Source: Researcher's analysis

Other factors that have been studied in various and different jurisdictions are auditors' length tenure and being a sole proprietorship. Alleyne, Devonish and Alvin (2006) administered questionnaires to 66 Auditors and 148 users in Barbados using size, closeness of Barbadian society, length tenure and being a sole practitioner, provision of non-audit services as factors that affects Auditor's Independence. The result from their findings shows that the afore-mentioned factors have a significant effect on auditors' independence and that rotation of audit partners existence of audit committee regulatory rights and audit change requirement enhances the auditors' independence. In the same vein, Walls (2010) did a comparative study on familiarity threat and auditors' independence, between public companies and private companies using Auditors' selection process and audit tenure for proxies. The results from the study indicated that Directors of both private and public companies in the UK can indirectly influence the selection process of Auditors and that most companies' Auditors have been with their client for more ten years and concluded that the results shows that familiarity threats can affect the Auditors' Independence.

Francis, LaFond, Olsson & Schipper, (2004) reviewed empirical research over the past 25 years done in the United States of America to assess the level of audit quality during the pose-Enron era and other reforms by Sarbanes Oxley Act. Interestingly, the review of literatures shows that the Audit Quality became better due to the various reforms on the provision of some certain NAS to audit client. However, legal liability reforms and changes in partner compensation were recommended in the study. The Accountancy Foundation Review Board in the United Kingdom (UK) in the year 2004 also conducted research on auditors' independence after the collapse of Enron and came up with reforms regulating the Accounting profession in the UK.

Using the data from Australia Carey & Sinnett (2006) examined the relationship between long audit tenure and audit quality by making use of the following variables as measures of Audit quality: they are, propensity to issue a going audit opinion for distressed companies, the direction and the amount of abnormal working capital accruals and missing earnings benchmark according to their study, the propensity to issues an unqualified opinion affects the quality of the audit.

One of the major characteristics of a credible financial report is Audit quality; recent studies on audit quality suggest that audit quality is largely dependent on individual characteristics of the auditors. Using a set of archival Chinese data, Gul, Wu & Yang (2013) analyzed approximately 800 individual Auditors and discovered that there is a significant relationship between audit quality and the individual characteristics of the Auditors using educational background, Big 4 audit firm experience, rank in the audit firm and political affiliations as their individual characteristics. Other studies on the credibility of financial reports hinges on the issue of corporate governance.

Eyesan and Adeyemi (2009) collected primary data from 248 respondents and secondary data from twenty quoted companies in Nigeria to investigate the relationship between corporate governance and credibility of financial statements in Nigeria using CEO duality and audit committee as proxies and analyzed the primary and secondary data using Chi-square and multiple regressions respectively. The results show that CEO duality does not affect the credibility of financial statements while Audit committee's compliance with regulations will enhance the credibility of financial reports.

Farouk & Hassan (2014) studied the relationship between audit quality and financial performance of quoted companies. The study employed audit firm size and auditors' independence as proxies for audit quality and the result from the study reveal that auditors' independence has a positive relationship with financial performance, while audit firm size have a partial positive relationship with firm performance.

Uwuigbe and Oyeluyi (2014) conducted a study on Auditors' Independence and audit quality in Nigeria from the perspective of Deposit Money banks as his population of study and the result from the study shows that there is a positive relationship between audit fee, audit firm rotation and audit quality. On the contrary the result also indicated that there's a negative relation between audit quality and company size.

In addition to the post-Enron era studies, research on auditors' independence is transitioning into the cultural, social, and global multi-national convergence context of auditors' independence. Understanding the influences of threats to auditors' independence is essential. However, auditors' independence is customarily and indigenously structured, and thus cannot be understood independently from the national, cultural and historical context of countries (Wu & Ying, 2016).

For instance, Pandoyo (2016) studied the effect of auditors' competence, auditors' experience, auditors' independence, organizational structure and leadership against auditors' professionalism and its implication on audit quality. The study employed the structural equation modeling to analyze the survey from government officials in the United Kingdom. The result from the study, suggest that auditors' competence, auditors' independence, auditors' experience, organizational structure and professionalism have a strong relationship with audit quality, while leadership has an insignificant relationship with audit quality.

Kertarajasaa, Marwa and Wahyudi (2019) studied the effect of competence, experience, independence, due professional care, and auditor integrity on audit quality with auditor ethics as a moderating variable by distributing 97 questionnaires to auditors using the regression analysis method. The result from the analysis indicates that competence, auditor integrity, and due professional care have a significant positive influence on audit quality, while experience and independence does not have a significance influence on audit quality.

In China, one of the most pressing threats to auditors' independence is Guanxi (connections), for instance, Wu and Ying (2016), did a study on "Realizing auditors' independence in China, insights from the local context". The result from the study indicates that auditors' independence in China is greatly influenced by pervasiveness of guanxi (connections), low legal risk and intense competition in the audit service market and incentive to provide additional advice and assistance on financial reporting.

The impact of auditors' independence on financial reporting quality

Auditors' tenure and financial reporting quality: the results from the findings of these studies (Carey & Simnett 2006; Bratten, Causholli & Omer, 2019) implies that the longer the audit tenure, the higher the quality of financial reporting, while other studies suggest that long audit tenure affects auditors' independence and financial reporting quality (Dao & Pham, 2014; Lyer & Rama 2004).

Non-audit services and financial reporting quality: the study done by: Koh, Rajgopal and Srinivasan (2012) found a negative relationship between non-audit fees and financial reporting quality while other studies found a positive relationship (Jere and Martin, 2010).

Audit fees and financial reporting quality: Aliu, Okpanachi and Mohammed (2018) found a negative relationship between audit fees and audit quality. While Suseno (2013) found a positive relationship between audit fees and auditors' independence

Audit firm size and financial reporting quality: (De-Angelo, 1981; Lennox & Pittman, 2010) found a positive relationship between audit firm size and audit quality/auditors' independence, while Amake and Okafor (2012) found a negative relationship

CONCLUSION

The general inference to be drawn from the whole study from the discussion presented in the prior section of this study is that auditors' independence is fundamental to the quality of financial reporting of listed companies in Nigeria. Specifically, the following conclusions were made.

Based on the first objective, which seeks to shed more light on the importance of auditing and review theories that necessitates the accounting profession, the review of papers in this regard shows that one of the most important reasons why auditing is needed is its ability to boost investors' confidence in published financial reports of organizations.

Secondly, the paper compared papers published before the Enron scandals with papers published after the Enron scandal and found out that most past literatures on auditors' independence were more on lowballing, audit fees and audit committee independence. Additionally, the Enron scandal overturned the tune and the focus on auditing entirely by considering factors like provision of management advisory services to the same audit client, audit committee independence, the psychological attributes of the auditors including the religious aspects of their lives are also examined. Thus, the study concludes that all the determinants of auditors' independence identified prior to the Enron scandal and post Enron scandal is still rigorously studied by researchers except for low balling.

Thirdly, the study examined the impact of determinants of auditors' independence (audit fees, audit firm size, non-audit fees, auditors' tenure, cultural factors, and psychological factors) on financial reporting quality from prior studies and found that the provision of non-audit service to the same audit client had the greatest impact on the quality of financial reports in Nigeria.

RECOMMENDATIONS

Based on the result from the review of literature the following policies are recommended.

The most important objective of auditing identified is investors' confidence in audited financial report. Thus, regulatory bodies should establish more institutional frameworks to protect the confidence and interest of investors.

Also, it is recommended that, non-audit services like tax computation and preparation of accounts should be totally discouraged, because the review of prior studies showed that non-audit services affect financial reporting quality. This simply implies that the provision of non-audit services to the same audit client reduces financial reporting quality.

Furthermore, it is apparent from the study that small firms are susceptible to pressures from management, hence their independence can be easily eroded in a bid to retain client because of their size. Thus, it is recommended that listed companies should be audited by the big fours or large audit firms and small audit firms can have joint audit to ensure the quality of published financial information.

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