

## **ABSTRACT**

The study examined the impact of Audit Standards on the Quality of Auditors' Performance in Nigeria.

The study employed the survey design and the purposive sampling technique to select 450 auditors and accountants in the audit and accounting department of ZENITH, GTB, and UBA companies. A well-constructed questionnaire, which was adjudged valid and reliable, was used for collection of data from the respondents. The data obtained through the administration of the questionnaires was analyzed using the Pearson correlation analysis.

The study revealed that: there is positive and significant relationship between disclosure of audit partner engagement and quality of auditors' performance ( $r=0.772$ ;  $p<0.05$ ). A positive and significant relationship exists between going concern disclosure and quality of auditors' performance ( $r=.896$ ;  $p<0.05$ ). A positive and significant relationship exists between disclosure of key audit matters and quality of auditors' performance ( $r=0.772$ ;  $p<0.05$ ).

The study hereby concluded that audit standards have significant effect on the quality of auditors' performance in Nigeria. The study further recommends that; Nigeria banks should endeavour to make sure that the audit partner engagement disclosures are absolutely efficient. Nigeria banks should always enhance the quality of auditors' performance in the companies through professionalism. Nigeria banks should always to disclose the going concern of the company to the auditors to encourage quality of auditors' performance. Nigeria banks audit and accounting department needs an urgent reappraisal. Nigeria banks audit and accounting department must become contextually relevant to customers, stakeholders etc, not staffs. The Nigeria banks needs to develop good governance principles

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background to the Study**

In the early history of public accounting, when accounting members began to rise during the 1880s in the United Kingdom (UK), the nature of review examination frequently fluctuated broadly, depending on the understanding and opinion of the particular auditor involved. Right from the early stage in its development, the profession immediately perceived that standards as such were required. For example, the American Establishment of Certified Public Accountants (AICPA) formed a board of trustees on auditing methodology in the 1950s. That board of trustees were responsible for setting the audit standards for use by inspectors. The AICPA Board of trustees distributed its report in 1954 (AICPA, 1954). This report was the premise of enlisting auditing organizations in the United States (US) for a great part of the 50s into 70s.

American profession triggered various standards that have now experienced quite a few years of refinement and understanding. It is important that each auditor have a careful comprehension of these standards, these standards are the model that should be utilized to pass judgment on an auditor's evaluation level. Ohiokha & Akhalumeh (2013).

Auditing standards are imperative to the client of accounting reports and information, for example, banks, community, investors, government, lenders and so on. The standards clarify the duty and autonomy of the reviewer from the perspective of administration and shareholders. International standards have been defined to blend auditing hones between diverse countries and are to be connected where there are no

neighbourhood standards. In Nigeria, the International Standards on Auditing (ISA) are compulsory for the organizations cited on the Nigeria Stock Exchange (NSE). However, because of the characteristic of the Nigerian environment on July, 2006 nine (9) Nigerian Standards on Auditing (NSA) were issued. It is of great necessity that every company listed on NSE must comply with these standards. Eluyela & Ilogho (2016) The objective of the review of financial statement is to empower the evaluator to express an assessment on whether the financial statement were prepared in every material aspect, as per a distinguished financial reporting system and the examiner's assessment is planned to enhance the validity of the financial statements.

External audits performed in accordance with high quality auditing standards can promote the implementation of accounting standards by reporting entities and help ensure that their financial statements are reliable, transparent and useful. Sound audits performance can help reinforce strong corporate governance, risk management and internal control at firms, thus contributing to financial performance (Internal Audits Board, 2011; Farouk & Hassan, 2014).

The statutory audit can strengthen confidence because auditors are expected to provide an external, objective opinion on the preparation and presentation of financial statements. Auditors need to disclose key audit matters in the opinions they express, while the work they have to do to form their opinions is highly dependent and rooted in the real world and may become challenging in some business environments. It is to this background that this research work is carried out. The purpose of this study therefore is to determine the impact of audit standard on the quality of auditors' performance of quoted firms in Nigeria. (Farouk & Hassan, 2014)

Audit standards are usually always reviewed from time to time for the purpose of improvement of the previous standards, to enhance the performance of auditors and to correct the deficiency in the financial statements. The last review that was made on the audit standard brought about the new audit report that was flagged up January 15<sup>th</sup> 2015 and commenced its operation December 15<sup>th</sup> 2015. Audit standards are always for the checks and balance, improvement and most importantly the performance of Auditors.

## **1.2 Statement of the Research Problem**

Several companies have ended their operation because of false audit report; the audit report did not show the true and fair view of the financial statement company at the particular time the report was prepared and this has resulted in the enquiry of the role, value and importance of auditors (Sikka, 2009).

Audit standards as improved by the arrival of the key audit matters, disclosure of audit engagement partners, and the going concern standard are part of the matters that the auditors should be conscious of when carrying out any engagement because these matters would need the significant judgment of the auditor. The standards were put in place to meet the need of the stakeholders and ensure the audited report is useful to its users (International Auditing and Assurance Standard Board, 2015).

Professional firms in Nigeria hide and encourage anti-social practices in several organization. The case of Akintola Williams and Deloitte where they overstated the profit of Cadbury Nigeria PLC (2006) and falsified the accounts of Afriland PLC (2009). This issue would have not occurred and the report of the audit would have been of tremendous value if it focused on issues that were of importance to the stakeholders and the general public.

Also another case is the collapse of Lehman Brothers which was audited by Ernest & Young. Lehman Brothers had the largest bankruptcy in the United States because they used creative accounting when

preparing their financial statement. They used Repo 10 which was an accounting manoeuvre. Using this, they reduced their balance sheet by 50 billion. In June 2008, they announced a loss of 2.8 billion. In September 2008, they announced a loss of 3.9 billion. They later filed for bankruptcy. Lehman Brothers collapse had an effect on global crises and the impact is still being felt. If the appropriate audit standards were actually followed and adhered to by the auditors they would have been able to figure out the manipulation the Lehman Brothers did and maybe their collapse would have not had an effect on the global crises.

Audit standards serves has an improvement and accountability on auditors' engagement. With these standards the auditors would be able to know the duty required of them when carrying out an assignment and since part of the new standard is that the name of the person that carried out the audit should be written on the audit report. Auditors would be more careful when carrying out an audit because they would lose their credibility and they might also lose their license.

The above issues would probably not have occurred if the auditors were conscious of the fact that the going concern and continuity of the company is their priority. Also, if Audit standards like disclosure of key audit matters, disclosure of audit engagement partners were available.

Prior to this research, there have been a lot of research done on Audit quality (Musa Adeiza & Shehu Usman, 2014), (Wali Saputa, 2015), (Loveday Nwyanwu, 2017), (Husam, Rana & Abdulhadi, 2013) and also audit standards in developed countries (Kristianstad University, 2010), (Jennifer Burns, John Fogarty 2010). Although, there have been in dearth in literature concerning this subject matter in developing countries like Nigeria (Emmanuel Okoye & Grace Ofeogbu, 2011) viewed audit standards on auditors performance in corporate financial reporting (Damilola Eluyela & Ilogho Simon, 2016) viewed this same subject matter from the banking sector. Previous researchers came up with the conclusion that there is a relationship between Audit standards and Auditors performance. However, this study intends to fill the gap by improving on the discovery of impact of audit standards on the quality of auditors' performance of listed firms in Nigeria.

### **1.3 Research Questions**

The below listed research questions will guide the study:

How efficient is the disclosure of audit partner engagement disclosures in enhancing the quality of auditors' performance of companies in Nigeria?

To what extent does the disclosures of going concern impact the quality of auditors' performance of companies in Nigeria?

How effective is the disclosures of key audit matter in improving quality of auditors' performance of companies in Nigeria?

### **1.4 Objectives of the Study**

The main objective of this study is to determine the impact of Audit Standards on the Quality of Auditors' Performance in Nigeria while the specific objectives are stated as follows:

To determine the efficiency of audit partner engagement disclosures in enhancing the quality of auditors' performance of companies in Nigeria.

To ascertain the extent to which the disclosures of going concern impact the quality of auditors' performance of companies in Nigeria.

To examine the effectiveness of key audit matter disclosures in improving quality of auditors' performance

of companies in Nigeria.

## **1.5 Research Hypotheses**

For the purpose of this study, the hypotheses shall be stated as follows:

### **Hypothesis 1**

**HO:** The disclosure of audit partner engagement does not significantly enhance the quality of auditors' performance of companies in Nigeria.

**H1:** The disclosure of audit partner engagement significantly enhance the quality of auditors' performance of companies in Nigeria.

### **Hypothesis 2**

**HO:** The going concern disclosure has no positive impact on the quality of auditors' performance of companies in Nigeria.

**H1:** The going concern disclosure has positive impact on the quality of auditors' performance of listed companies in Nigeria

### **Hypothesis 3**

**HO:** The disclosure of key audit matters has no significant effect in improving the quality of auditors' performance of companies in Nigeria.

**H1:** The disclosure of key audit matters has a significant effect in improving the quality of auditors' performance of companies in Nigeria.

## **1.7 The Scope of the Study**

The focus of this research exercise is to reveal the impact of Audit Standards on the quality of auditors' performance of companies in Nigeria. The Audit Standards considered for the purpose of the study include: audit partner engagement disclosure going concern disclosure, key audit matter disclosure and new audit report. The choice of the Audit Standards considered for the study was due to the fact that they are recent which just came into existences as at January 15, 2015 and must be considered by all listed companies from December 15, 2015. There are 173 listed companies in Nigeria, but this study focuses on banking companies in Nigeria (ZENITH, GTB, and UBA). The peculiarity of the selected Audit standards to the companies afore mentioned, aid the choice of the companies considered for the study.

## **1.8 Summary of research methods**

### **1.8.1 Research Design**

The study adopted survey research design. The data used for the purpose of this study was extracted from the opinion of respondents from the questionnaire administered. The dependent variables for the quality of the Auditors' performance is based on the independent variables which denote the Audit standards identified for the purpose of this study involves the audit partner disclosure, disclosure of key audit matters and disclosure of going concern.

### **1.8.2 Population and Sampling Technique**

The research population for this study consists of external and internal auditors of the ZENITH, GTB, and UBA (180, 160, and 110) that's a total size of 450. Incredible consideration was practiced to get a reasonable portrayal for the populace as sample. However, a sample size of 450 auditors and accountants were selected in the audit and accounting department of ZENITH, GTB, and UBA companies.

### **1.8.3 Method of Data Collection**

The study made use of both primary and secondary sources of data which include session of previous research on the subject matter; official publication such as the annual financial report, website information, textbooks, and administration of the questionnaire in order to collate necessary data for the study.

### 1.9 Definition of Terms

1. **Audit Standards:** provides direction for the auditor that helps decide the scope of audit steps and procedures that should be applied to fulfil the audit objective. They are the principles or yardsticks against which the quality of the audit results are evaluated.
2. **Key Audit Matters (KAM):** are those issues that are highly significant in the auditors' professional judgement as regards the preparation of financial statement
3. **Going Concern:** This is a principle that is essential when preparing the financial statement which regarded an entity to have the capacity to continue its normal way of business into the predictable future without any plan for liquidation at any point in time.
4. **Quality:** a measure of distinction or a point of being free from failings or deficits.
5. **Auditors' Quality:** An independent third party whom carries out the quality audit. This person has no interest in the company and is not there to pass comment on the product. The auditor is there in order to determine that all quality assurance has been carried out.
6. **Financial Reporting Council of Nigerian:** The name once in the past called the Nigerian Accounting Standard Board (NASB) and it has obligation regarding getting ready and issuing financial guidelines in the preparation of financial statements
7. **Nigerian Accounting Standard Board (NASB):** is responsible for developing, publishing and updating statement of accounting standards for preparation of financial statement and was established in 1982.
8. **International Auditing and Assurance Standard Board (IAASB):** IAASB is a standard setting body that is independent which issue standards like International Standard on Auditing (ISA), quality control guidelines and other services
9. **International Standards on Auditing (ISA):** These are professional guidelines issued by the International Federation of Accountants (IFAC) that deals with the procedure on how audit should be conducted.
10. **Public Companies Accounting Oversight Board (PCAOB):** Established by Sarbanes Oxley Act 2002 and it is responsible for overseeing the accounting professional bodies in UK in order to provide audit report for public owned companies.

### 1.10 Organisation of the Study

This research is sectionalized under five chapters as mandatory by the existing research rule.

Chapter one addresses background to the study, statement of research problems, objectives of the study, research questions, research hypothesis, significance of the study, scope of the study and definitions of terms.

Chapter two involves review of literatures of current and previous research on the subject matter. The conceptual, empirical and theoretical framework of the subject matter will be thoroughly studied.

Chapter three compacts with the research methodology. This includes research design, population of study, sample size, sampling techniques, sources of data, model specification and method of data analysis.

Chapter four entails data analysis, presentation and interpretation. The research hypothesis will be

empirically tested and the result presented.

Chapter five denotes the summary of empirical and theoretical findings of the study. It also represents the conclusions of findings, recommendations to the study, implications of the study, contributions to existing knowledge and suggestions for further study.

## **IMPACT OF AUDIT STANDARDS ON THE QUALITY PERFORMANCE OF AUDITORS' NIGERIA PERSPECTIVE**

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