

Abstract

The purpose of this study is to examine the Audit Firm Rotation and Audit Quality Evidence from Nigeria Banks. The main objective of the study is to examine the extent audit firm rotation significantly affects audit quality, and to evaluate the relationship between board independence and audit quality. The debate on audit quality firm rotation is not a settled matter. This study intended to assess the applicability of the mandatory auditor rotation concept in the Nigerian bank sector so as to enhance and improve audit quality, from the findings of both the literature as well as the field survey, it was discovered that audit firm rotation significantly affect audit quality. It was concluded that rotation is a good solution to enhance and maintain the auditor independence by decreasing the audit firm's dependence on the client.

Recommendations were made amongst others that regulatory bodies e.g. CBN, FRSC should help make laws that will reduce audit firm rotation and help improve audit quality, the Central Bank of Nigeria should think of other ways to address concern about audit quality.

CHAPTER ONE

INTRODUCTION

Background of the study

Audit quality has attracted enormous attention since the financial reporting scandals in major corporations such as Enron and WorldCom in the United State of America as well as Parmalat in Italy. It is defined as the auditor's ability to discover a breach in the client's accounting system combined with the auditor's willingness to report such breach (DeAngelo, 1981; Watts & Zimmerman, 1981). Riyatno (2007), defines audit quality as something that is abstract, difficult to measure and can only be perceived by the users of audit services. Thus, there is no uniform definition of audit quality. While De Angelo (1981) as cited in Ebrahim (2001) defines audit quality as the combined probability to detect and report material errors in financial statements, Palmrose (1988) defines audit quality in terms of the level of assurance since the purpose of an

audit is to provide reasonable assurance to users on financial statements. The reporting scandals that have rocked the globe has made the auditing profession attempt to improve audit quality issuing standards focused on corporate governance. Empirical studies (Arrunada & Paz1 Ares,1997; Brody & Moscovice,1998;Healey & Kim,2003) have tried to examine ways or avenues for the improvement of audit quality. The 2006 consolidation of banking sector in Nigerian brought about the introduction of mandatory audit firm rotation as part of banks' code of corporate governance with the aim of further strengthening audit quality. Mandatory audit firm rotation became topical after the simultaneous sack of 8 banks chiefs by the governor of Central Bank of Nigeria in 2009, and the imposition of external auditors rotation after 10 years of engagement by the apex bank. It was also said by the apex bank that for the avoidance of doubt, the maximum period of 10 years shall include the period an audit firm, which later merged/changed name, first commenced audit assignment in the bank. Mandatory rotation of external auditors requires audit firms to be rotated after a specified number of years irrespective of the quality, independence of the audit firm, the willingness of the shareholders and the management to keep the firm. Azizhakhani (1967), explains that mandatory rotation of auditors was first introduced during the Mckesson Robbins accounting scandal in the late 1930s. However, it took another turn after Enron financial scandal and the compromise of Arthur Andersen. There was a meeting held by U.S senate where the issue of the audit profession and the benefit of audit firm rotation to audit quality was discussed. Some participants at the meeting agreed with the idea that audit firm rotation improves audit objectivity and that long-term relationships between companies and their auditors tends to reduce auditors' independence and quality. They further agreed that a client maybe a significant source of revenue for an auditor and the auditor may be reluctant to jeopardize the revenue stream as he would not want to bite the very hand that feeds him (Hoyle, 1978). Firm rotation may also help to prevent large scale corporate collapse. The estimated market capitalization loss of the collapses of WorldCom,

Tyco, Quest, Enron and Computer Associates was put at \$US460 (Jackson, Moldrich & Roebuck, 2007). They also argued that audit quality is diminished with long audit tenure, that mandatory rotation will reduce familiarity threat, ensures auditors independence and provides a greater skepticism and a fresh perspective that may be lacking in long-standing audit or client relationship (Firth, Rui & Wu, 2010; Hyeeso, 2004).

STATEMENT OF THE PROBLEM

Different studies (Arrunada & Paz-Ares, 1997; Brody & Moscovice, 1998; Dopuch, King & Schwartz, 2001; Myers & Omer, 2003) have tried to examine possible explanatory variables for the state of audit quality. The presence of audit failures in the world has brought a great deal of disappointment to stakeholders and investors, and longevity of audit firm tenure has also been linked with fraudulent financial reporting which reduces the audit firm rotation improves audit quality as auditors may need to be experts in their area and acquire client-specific knowledge overtime (Ghosh & Moon, 2005; Defond & Francis, 2005; Jenkins & Velury, 2008). This means that audit quality is lower during the early years of the auditor-client relationship and increases with length of audit firm rotation due to the reduction in information communication between auditor and client (Azizkhani, Monroe & Shailer, 2006). Therefore, this study extends and contributes to the body of research using data from Nigerian banks to investigate the likely impact of audit firm rotation on audit quality.

OBJECTIVE OF THE STUDY

The broad objective of this study is to examine the impact of audit firm rotation on audit quality. The specific objectives of the study are to:

- Examine the extent audit firm rotation significantly affects audit quality;
- Determine the relationship between company size and audit quality;
- Investigate how audit fees affects audit quality; and
- Evaluate the relationship between board independence and audit quality.

1.4 RESEARCH HYPOTHESES

The hypotheses stated below are raised in order to actualize the objectives of this study.

Hypothesis One

HO: Audit firm rotation contributes negatively to the quality of audit assignment.

HI: Audit firm rotation contributes positively to the quality of audit assignment.

Hypothesis Two

HO: There is no significant relationship between the firm's size and audit quality.

HI: There is significant relationship between the firm's size and audit quality.

SIGNIFICANCE OF THE STUDY

This study provides useful insight into improving audit quality in banks operating in Nigeria. Some interest groups that will benefit from this study are:

Regulatory bodies e.g. CBN, FRCN: This will help them to make laws that relate to audit firm rotation and help improve audit quality

Audit firms: This will make audit firms understand the significance or otherwise of audit firm rotation.

SCOPE AND LIMITATION OF THE STUDY

This study is focused on audit firm rotation and audit quality of banks in Nigeria. Data is gotten from financial statements of 15 banks. The researcher encounters some constrain which limited the scope of the study;

a) AVAILABILITY OF RESEARCH MATERIAL: The research material available to the researcher is insufficient, thereby limiting the study

b) TIME: The time frame allocated to the study does not enhance wider coverage as the researcher has to combine other academic activities and examinations with the study.

1.7 DEFINITION OF TERMS

Audit quality: The accounting quality of the financial used, these number can either be derived from an audit by a third party, classified as 'audited' or 'reviewed' or derived from within the company classified as unaudited.

Auditing: An official examination and verification of accounts and records, especially of financial account.

Audit firm rotation: An audit firm rotation is the aim of this review is to identify, consider and evaluate the existing evidence on mandatory of the audit firm rotation.

Audit fee: An audit fee consist of fees billed for professional services rendered for the audit of our financial statement and review of the interim financial statement included in quarterly reports and services that are normally provided in uniack connection with statutory and regulations.

Audit Report: An audit report is the formal opinion of audit finding, the reports writing is the end result of an audit performance by an auditor.

Bankruptcy: A legally declared or recognized condition of insolvency of a person or organization.

Shareholders:It is an owner of share in an company or business.

Stakeholder theory:Stakeholder theory is a theory of organization management and business ethics that address moral and values in managing an organization.

Financial Statement: A financial statement or financial report is a formal record of the financial activities of a business or other entity.

Integrity: The quality of being honest and having string moral principles.

Organization: A group of people who form a business, club etc.

IMPACT OF AUDIT FIRM ROTATION ON AUDIT QUALITY EVIDENCE FROM NIGERIAN BANK

The complete project material is available and ready for download. All what you need to do is to order for the complete material. The price for the material is NGN 3,000.00.

Make payment via bank transfer to Bank: Guaranteed Trust Bank, Account name: Emi-Aware technology, Account Number: 0424875728

Bank: Zenith Bank, Account name: Emi-Aware technology, Account Number: 1222004869

or visit the website and pay online. For more info: Visit <https://researchcub.info/payment->

instruct.html

After payment send your depositor's name, amount paid, project topic, email address or your phone number (in which instructions will sent to you to download the material) to +234 70 6329 8784 via text message/ whatsapp or Email address: info@allprojectmaterials.com.

Once payment is confirmed, the material will be sent to you immediately.

It takes 5min to 30min to confirm and send the material to you.

For more project topics and materials visit: <https://researchcub.info/> or For enquiries: info@allprojectmaterials.com or call/whatsapp: +234 70 6329 8784

Regards!!!