AUDITORS INDEPENDENCE AND QUALITY OF FINANCIAL REPORTING IN NIGERIA

BY

ATAGAMEN ABIGAIL

MATRIC NUMBER: 15020101022

A RESEARCH PROJECT SUMBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE, MOUNTAIN TOP UNIVERSITY IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF BACHELOR OF SCIENCES

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CERTIFICATION

This is to certify that this research project report titled **"AUDITORS INDEPENDENCE AND QUALITY OF FINANCIAL REPORTING IN NIGERIA"** was carried out by **ATAGAMEN ABIGAIL**, with matriculation number 15020101022. This project report meets the requirements governing the award of Bachelor of Science (B.Sc.) Degree in Accounting, Department of Accounting and Finance of the Mountain Top University, Ogun State, Nigeria and is approved for its contribution to knowledge and literary presentation.

Atagamen Abigail **(Author)**	**Date**
Dr. Pius Onichabor **(Project Supervisor)**	**Date**
Dr. Akinyomi, Oladele John **(Head of Department)**	**Date**

DEDICATION

This research project is dedicated to God Almighty for his grace, favor, wisdom and strength during the course of my research project.

I dedicate this project to my daddy and mummy Pastor Victor and Pastor (Mrs.) Victoria A. Idiake, for believing in me and supporting me in all areas and also to my siblings for always encouraging me.

To my supervisor, Dr. Pius Onichabor, for his continuous correction and support during the course of my project work.

To my Head of Department Dr. Akinyomi, for his support during the time the project was carried out.

To my colleagues and friends, that stood by me and supported me during the time of this research work.

ACKNOWLEDGEMENTS

I really want to thank the Almighty God for him alone deserve to be praised for the gift of life and for how far He has brought me, for his sufficient grace and mercy towards me. This research work would not have been completed without the support of others, I wish to show gratitude to those whose efforts and constructive criticisms have enriched the work in many ways.

I owe a special debt of gratitude to my supervisor, Dr. Pius Onichabor O. whose excellent guidance has enabled me produce this work. May the good Lord bless you abundantly for the excellent counsel you accorded me in the course of this research.

To my parents and siblings for the support both financially and morally, your efforts and inputs though unquantifiable, I will forever be indebted for your courage, mentorship, understanding, motivation, guidance and love.

I want to say thank to the Head of Accounting Department Dr. Akinyomi, O.J for his constructive criticisms and suggestions, so also to all the Lecturers of the Accounting and Finance Department for their inputs in this work. I want to appreciate all my classmates who at one time or the other helped me while on this work , as well as the Mountain Top University library staffs who assisted in putting my work together in the appropriate way.

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ABSTRACT

The effect of auditor's level of independence on financial reporting quality of deposit money banks was investigated in this study. The alarming rate of bank failure in Nigeria is a concern for researchers to investigate the role of auditors in ensuring financial reporting quality in the industry. Copies of questionnaire were administered on accounts and audit staff of selected deposit money banks in Nigeria. Correlation and regression analyses were employed to test the hypotheses of the study. This study reveals that auditor's independence has positive significant effect on the quality of financial reporting in deposit money banks in Nigeria. Further result from this study indicates that non-audit services have significant negative effect on the quality of financial reporting in deposit money banks in Nigeria. Another outcome of this study is that audit rotation has significant positive effect on the quality of financial reporting in deposit money banks in Nigeria. Hence, the study concluded that auditor's independence, non-audit services and audit rotation have significant effects on financial reporting quality of deposit money banks sampled for this study. The study recommended that regulatory bodies and professional bodies should regulate and monitor the type and scope of non-audit services an auditor may engage in from time to time. The study recommends further that mandatory rotation of auditor of deposit money banks in Nigeria should be enforced by enabling regulatory organs like the central bank of Nigeria (CBN), Nigeria Security Exchange (NSE).

Keywords: Auditor's Independence, Non-Audit Services, Audit Rotation, Financial Reporting Quality

CHAPTER 1

INTRODUCTION

1.1 Background to the Study

Auditor's independence has become paramount in recent years to companies in Nigeria as it has helped to analyze the truthfulness and fairness of the financial statements of business enterprise. Daugherty, Dickins, Higgs & Hatfield (2012). This is as a result of the auditors being liable for any wrong statement or misstatement committed by them. Izedonmi, (2000) stated that independence is of the mind, characterized by objectivity and integrity on the part of the auditor.

The quality of financial reporting as is being reported differs from one firm to the other and also from country to country (Ali & Ahmed 2014). It has been seen in most literature that the reliability level of financial reporting in general by listed companies in developing countries lags behind that of developed countries. While regulatory institutions are ineffective in driving the enforcement of the existing accounting standards, but also in providing adequately enabling regulations that may enhance the practice of reporting quality accounting earnings (Ali, et al., 2014). This could be evidenced from the advent of the collapse of giant corporations like Enron, Lehman Brothers, Parmalat, Northern Rock, Worldcom and so on, which triggered series of calls for, and enactment of tighter regulations by various study-committees from different countries, such as the Cadbury report of 1992, the Hampel committee of 1998, Blue-ribbon panel of 1999, Tumbull report of 1999 and the noted Sarbanex-Oxley act of 2012, (Loomis, 1999).

According to Colunga, Haack and Adelaja (2009), the credibility of financial information is vital to the growth of any economy; also auditors are expected to be independent and objective in the discharge of their responsibilities. According to Gallegos (2004), he was of the opinion that the report of external auditors in the financial statement is seen as providing key assurance to the interest of the shareholders. Beattie & Fearnley (2002) expressed that after the collapse of Enron, it was generally believed that rendering of non-audit services compromised the independence of external auditors. An extract from the website of Institute of Chartered Accountants England and Wales (ICAEW) (2009), reiterated that the independence of statutory auditors is a rather complex issues.

1.2 Statement of the problem

Financial Reporting involves various transactions in which the issuers of the financial reports provide the users with the right expectation that will help increase their financial decisions. The creditors, suppliers, govesrnment authorities, financial analyst and the general public are known as the potential users of the financial reports and are all related as the company parties.

The problem of financial reporting is of great concern not only for the final users but for the general society as it affects the economic decisions which have a great impact. According to IASB conceptual framework a very important requirement for qualities in financial reporting is the adherence to the objective and the qualitative characteristics if financial reporting information (IASB, 2000). As an answer to the need for improving and convergence of the existing financial reporting frameworks of IASB and FASB, IASB issued in 2008 an exposure draft titled “An improved conceptual framework for financial reporting”.

In the recent times, the auditors have come under serious scrutiny following the failure of many corporate entities whose financial statement. The auditors are certify as showing true and fair view. Cases that readily come to mind are Erron, Cadbury Nigeria Limited and Liver brother Nigeria Limited. Chukwunedu (2011)

Chukwunedu, Okafor and Ofoegbu(2013) opined that the collapse of these companies brought to fold the apparent lapses and perceived shortcomings in the auditors' independence. It is in view of this that the study set out to investigate the auditors' independence and the quality of financial reporting in Nigeria.

1.3 Objective of the study

The main objective of this study is to evaluate the auditor's independence and the quality of financial reporting. The specific objective of this study is to:

i. To examine relationship between auditors independence and the quality of financial reporting in Nigeria.

ii. To evaluate the extent to which auditors non-audit service to client influence the auditors' independence and the quality of financial reporting in Nigeria.

iii. To evaluate the extent to which auditors rotation impact on the auditors' independence and the quality of financial reporting in Nigeria.

1.4 Research Questions

i. What is the relationship between auditors independence and thequality of financial the quality of financial reporting?

ii. To What extent does auditors non-audit services to client's influences the auditors' independence and the quality of financial reporting in Nigeria?

iii. How does auditors' rotation influence on auditors independence and the quality of financial reporting?

1.5 Research Hypotheses

H_{01}: There is no significant relationship between auditors' independence and the quality of financial reporting.

H_{02}: Auditors' non-audit services to client do not have any significant influence on the auditors' independence and the quality of financial reporting.

H_{03}: Auditors rotation has no significant relationship between auditors' independence and the quality of financial reporting.

1.6 Scope and Limitation of the study

The scope of this study covers auditor independence and the qualities of financial reporting in Nigeria. However, the study is limited to a few companies in Lagos, Nigeria. The researcher assumes that the finding of this study will be used in various companies in Nigeria, audit firms and the users of financial information which function in the political, social, legal and economic environment.

1.7 Significance of the Study

This research work focuses on the independence of auditors on the financial reporting of various firms. The findings of this research are expected to contribute to the existing body of knowledge. Practicing auditors in Nigeria are expected to become informed of the complexity surrounding auditor independence. The academic environment will gain greatly from the outcome of this research.

1.8 Definition of Terms

Audit Firm: An audit firm may investigate potential theft or fraud and ensure compliance with applicable regulations and policies.

Auditor: This is a person or a firm appointed by a company to execute the audit.

Auditor Independence: It refers to the independence of the internal auditor or the external auditor from parties that may have a financial interest in the business being audited.

Independence: This is the ability to do something without being or influenced by other people.

Financial Reporting: Financial reporting is the process of producing statement that discloses an organization's financial status to management, investors and the government.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

The literature review comprises of the conceptual framework, theoretical framework and the empirical review of this study.

2.1 Conceptual Framework

Researchers have carried out general reviews on the different facts surrounding the quality of financial reporting. Economic difficulties, increase in the disclosure requirement, accounting harmonization, accounting standards divergence and other factors have created an excessive focus in financial reporting. The need for providing a clear and full definition of financial reporting quality has been demanded across the world.

Thus, financial reporting is a wide concept that does not only contain financial information; it contains various non-financial information which is used for decision making. This chapter focuses on the review of literatures on what could influence the quality of financial reporting and how it could be evaluated and measured.

2.1.1 Auditors Independence

Auditors' independence may be defined as an auditor's unbiased mental attitude in making decisions throughout the audit and financial reporting process. (Babatolu, Aigienohuwa, & Uniamikogbo, 2016)

2.1.2 Determinant of Auditors Independence

In literature it has been identified that a number of factors influencing the independence of an auditor. These are the size of the audit firm, quality of the firm's financial reporting, financial reporting and firm's value, provision of management advisory service (MAS) by auditors, audit committee characteristics and financial reporting quality, system automation and staff competence.

2.1.3 Size of Audit firm

The larger audit firms are most times considered to be more capable of resisting pressures from management (higher auditor independence). According to Abu Baker and Ahmad, (2009) proved in their study that there is a positive relationship between audit firm size and the auditors independence. They also argued that certain characteristics inherent in small audit practices may increase the danger of impairment of the auditor independence. An example is the tendency towards a more personalized mode of service and close relationship with client. However, it should not be assumed that firms act independently because the use of large audit firm is no guarantee of its inability to resist pressures from clients, as happened with Arthur Andersen and Enron.

2.1.4 Quality of the Firms Financial Reporting

The users of financial reporting includes the creditors, suppliers, financial analysts, government authorities and the general public including all stakeholders of the entity. The issue of quality in financial reporting is of great importance not only for the final users but also for the society at large because it affects the economic decisions which might have significant impact (IASB, 2008). Financial reporting is a two party transaction in which the issuers of the financial reports provide them to the users who can use them with the intention that it will help them enhance their financial decisions. Financial reporting quality is a wide concept in accounting literature, hence, there is no acceptable definition and measurement so far among researchers. According to McDermott (2011); Biddle, Hilary and Verdi (2009); Nasser and Nuseibeh (2003); Robinson and Munter (2004) defined financial reporting quality as the precision with which financial reporting conveys information about the firms operation or compliance of accounting standards of a particular country, or the extent to which the published financial statement and related disclosures capture the essence of the operation and financial position of the reporting entity.

Jonas and Blanchet (2000) describe two general perspectives that are widely used in the assessment of financial reporting quality. The first perspective relies on the needs of users. Under this perspective, quality of financial reporting is determined on the basis of the usefulness of the financial information to its users, (Baxter 2007). The second perspective of financial reporting quality is focused on the notion of shareholder/investor protection. User needs perspective is mainly concerned with the provision of relevant information to users for making decisions, whereas the shareholder/investor protection perspective aims to ensure that the information provided to users is sufficient for their needs, transparent and competent, (Jonas & Blanchet 2000).

2.1.5 Financial reporting and firm value

The issue of whether the amount and quality of financial reporting affects firm value has been the subject of most research. According to Diamond and Verrecchia (1991) developed a model showing that the value maximizing manager of a firm has an incentive to use corporate disclosure as a mechanism to reduce information asymmetry. This improves the future liquidity and result in a lower cost of capital. According to Kim and Verrecchia (1991) it was shown that the value of such information disclosures depends upon both the magnitude and the precision of the unexpected portion of the disclosure. Managers might have chosen to bridge the information through management forecasts. Previous research have shown that management forecasts are price informative (an example is Jennings 1987) and can lead to forecast revision by financial analysts (another example is Williams 1996). According to Baginski, Conrad and Hassell (1993) specifically show that the price reaction to voluntary management forecasts is a function of the precise of the information released.

Managers may sometimes reduce information asymmetry by improving the quality of their firms SEC mandated financial disclosures. An example is if they could improve the quality or credibility of disclosures made through quarterly and annual financial reports. Other research has shown that most report contains information related to bid-ask spreads (Welker 1995), a firm's cost of equity (Botosan 1997), and a firm's cost of debt (Sengupta 1998). Additionally, Pownall, Wasley and Waymire (1993) find evidence that during 1979-87 earnings announcements were more informative than were management forecasts. In this paper, we investigate whether two audit committee characteristics – the composition (expertise and independence of the audit committee members) and size of the audit committee - impact the quality and informativeness of financial reporting. The underlying expectation is that it is the audit committee which is ultimately responsible for ensuring that quality accounting policies, adequate internal controls and objective outside auditors are in place to promote high quality, credible financial reporting and deter fraud. This issue gains added relevance since there is emerging evidence that the value relevance of financial statements may have decreased in recent times (see, for example, Lev and Zarowin (1999).

2.1.6 Provision of Management Advisory Service (MAS) by Auditors

According to Adeyemi et.al (2011) MAS may involve investment banking strategic management planning, human resources planning, computer hardware and software installation, internal audit outsourcing, risk assessment and business performance management. An extensive debate is raging in the literature about the compatibility of consulting and audit service. In line with this, several empirical surveys were conducted in order to find how third parties, auditors and firms view this issue. The results are, however, inconclusively suggesting that the effect of Management Advisory Services on perceptions of audit independence is complex and other factors such as cultural differences of the subjects may also be a significant factor in the way management advisory services are viewed in the context of auditor independence. Shockley, believed that collateral services create a working relationship between the auditor and the client that is too close and that the provision of management advisory services negatively affected auditor independence.

2.1.7 Audit committee characteristics and financial reporting quality

Most research concerning corporate governance and financial reporting quality has tended to focus on the board characteristics rather than the audit characteristics. According to Beasley (1996) finds that firms committing financial statement fraud have a significantly lower percentage of outside board directors (independent and gray combined) the comparable firms not committing financial statement fraud. According to Vefeas (2000) reveals that the informativeness of earnings, as proxied by the earnings-return relationship, is unrelated to board size. However, he does not investigate whether audit committee characteristics affect the informativeness of earnings.

Other research has been investigating the impact of having an audit committee on financial reporting quality. According to Pincus, Rubarsky and Wong (1989) shows that before audit committee were required, larger firms, with a Big Eight auditor, firms with lower managerial equity ownership and firms with a greater proportion of outside directors were more likely to form audit committees. According to Wild (1996) shows that the informativeness of a firm's earnings reports increases after the formation of an audit committee. According to McMullen (1996) and Dechow, Sloan and Sweeney (1996) both find evidence that firms committing financial fraud are less likely to have audit committee at the time of the fraud than all other firms. This research suggest that the existence of an audit committee impacts financial reporting quality, they do not investigate whether audit committee characteristics impact financial reporting quality.

Another source of literature that is closer to the main point addressed in this paper has emerged recently. Most of these papers explained the relationship between audit committee characteristics and financial reporting quality in extreme circumstances such as financial statement fraud and the going-concern reports. According to Abbott, Parker and Peters (2002), it shows that the financial misstatements are less likely to occur in firms with audit committees that are independent and that have a financial expert. According to Beasley (1996) the percentage of outside directors on the audit committee is lower for firms that committed financial statement fraud. According to Wright (1996) he documented a negative relationship between the presence of inside and/or gray directors and the quality of financial reporting. He also state that after controlling for the proportion of inside and gray directors on the audit committee, the composition of the non-audit committee members is unrelated to the quality of financial reporting. He includes only firms in the top and bottom quartile of disclosure quality to increase the power of the tests. In addition, he uses raw analysts rankings and dummy variables for industries, whereas Lang and Lundholm (1993, 1996) suggest that the analyst ranking data be industry-adjusted to control for possible differences arising in the analyst subcommittee composition.

According to Raghunandan, Read, and Rama (2001) show that audit committees comprised solely of independent directors and having at least one member with an accounting or finance background are more likely to have longer meetings with the chief internal auditor, meet privately with the chief internal auditor, review the internal auditing program and results, and review management's interaction with internal auditing. According to DeZoort and Salterio (2001) use actual audit committee members in an experimental study. They document that independent audit committee members having relatively high audit knowledge are more likely to support the auditor in auditor-management disputes over accounting policy. According to Carcello et al. (2002) find that both audit committee quality and board quality (measured in terms of independence, expertise, and diligence) are positively related to audit fees (which they interpret as a proxy for audit quality). While this evidence is suggestive, these studies do not *directly* investigate the relationship between audit committee composition and financial reporting quality.

2.2 Theoretical Framework

This phase discusses the theories that explain the background and historical development of the study variables. This survey was anchored by the policeman theory, lending credibility theory, stewardship theory and agency theory.

2.2.1 Policeman Theory

The policeman theory claims that the audit and assurance process is responsible for searching, discovering and preventing of fraud. This was in the early 20th century. Moreover, the major aim of this process has been to give reasonable assurance and verify the true and fair view of financial reporting. To detect fraud is a hot topic for debating on the auditors independence and various events where financial statement fraud have been revealed, the expectation increases on the responsibilities of auditors in detecting fraud and manipulation of financial information. This was the most widely used theory in auditing until the 1940s (Hayes, Schilder, Dassen &Wallage, 1999). Up until the 1940s it was widely held that an auditor's job was to focus on arithmetical accuracy and on prevention and detection of fraud. However, from the 1940s until the turn of the century there was a shift of auditing to mean verification of truth and fairness of the financial statements. Recent financial statement frauds such as those at Societe Generale, Satyam, Ahold, and Enron have resulted in careful reconsideration of this theory. There now is an ongoing public debate on the auditor's responsibility for detection and disclosure of fraud returning us to the basic public perceptions on which this theory derives?

According to this theory, the audit committees should put in place mechanisms to detect fraud before it happens just like a policeman tries to prevent crime from happening. In terms of quality of financial reporting, audit committee is viewed to perform the duty synonymous to that performed by the policemen such as to check and detect any instances of frauds in the organisations. Therefore audit committee that are independent, diversified, and financially competent and have quality meetings is perceived to exercise their mandate more effectively. For instance Elder *et al.* (2009) stated that the most common way for users to obtain reliable information (reducing the information risk) is to have an independent audit committee.

Similarly, DeZoort *et al.* (2002) asserted that an effective audit committee could protect stakeholders‟ interests by ensuring reliable financial reporting, effective internal control, and high quality risk management. Turley and Zaman (2004) also pointed out that understanding the impact of audit committees as policemen could assist in formulating appropriate expectations about the audit committee function, based on which the effectiveness of audit committees could then be assessed. Salehi, Rostami and Mogadam (2010) also adopted policeman theory in explaining the usefulness of accounting information system in emerging economy.

As mentioned earlier policeman theory claims that the audit and assurance process is responsible for searching, discovering and preventing fraud, therefore audit committees acting as organisation policeman go a long way in ensuring quality financial reporting.

2.2.2 Lending Credibility Theory

This theory suggests that the primary function of the audit process is to add credibility to the financial statements. Audited financial statements are seen to have an element that increases the financial statement users "confidence in the figures presented by the management". The users "are perceived to gain benefits from the increased credibility and these benefits are typically considered to be the quality of investment decisions improve when they a Audited financial statements are used by management to enhance the stakeholders faith in managements stewardship. If stakeholders such as stockholders, government, or creditors have to make their judgments based on the information they receive, they must have faith that this is a fair representation of the economic value and performances of the organization. The audit process reduces information asymmetry whereby management knows more than the stakeholders.

However, Porter (1990) concludes, that Audited information does not form the primary basis for investors, investment decisions.

On the other hand, it is often asserted that financial statements have a function of confirming a message that was previously issued (Hayes *et al.,* 1999). From the assertions of this theory, it is the duty of the audit committee to ensure that the final product of the financial reporting cycle will be beneficial in terms of quality to interested parties that may use them for decision making. As much as possible, the committee must ensure that their efforts are geared towards lending credibility to the financial statements.

High-quality financial reporting by firms is important for both internal and external evaluation of credibility of the business performance (Bushman & Smith, 2001). For internal decision-making, prior research shows that high-quality financial information helps business managers identify good projects and increase investment efficiency (Chen, Hope, Li, & Wang, 2011). For external purposes, disclosure of financial information allows providers of financial resources to better assess the firm's investment opportunities and monitor managerial actions (McNichols & Stubben, 2008). In other words, high-quality financial reporting should ease external financing constraints by reducing the adverse selection or moral hazard costs associated with information asymmetry.

The proponents of lending credibility theory therefore argue that the need for credibility in the financial reporting should act as a motivating factor for any organisation an effective audit committee. Independent, diversified and competent audit committee will ensure quality is upheld in financial reporting. Kabiru and Rufai (2014) found that audit quality is often related to the competence and independence of audit committees as being able to detect material misstatements and being prepared to issue appropriate audit reports to reflect their findings. The theory fits in the study by ensuring that financial reporting under the audit committees' scrutiny is as accurate as possible and this adds credence to the financial statements. This gives confidence to all the stakeholders on the performance of the organisation as represented in the financial reports (Hayes *et al., 1999*).

2.2.3 Stewardship Theory

The stewardship theory has its root from psychology and sociology and it stresses on the role of top management being as stewards, integrated their goals as part of the organization as opposed to the agency theory perspective (Argyis & Schon, 1974). The stewardship theory implies when organizational success is attained, stewards should be appraised and motivated when organizational success is attained. It is based on a model of man where a steward perceives greater utility in cooperative, pro-organizational behavior than in self-serving behavior; the theory assumes a strong relationship between organizational success and a principal's satisfaction. Hence, a steward overcomes the trade-off by believing that working towards organizational, collective ends meet personal needs as well (Penman, 2007).

The theory recognizes the importance of structures that empower the steward and offers maximum autonomy built on trust (Donaldson & Davis, 1991). In order to protect their reputations as decision makers in organizations, executives and directors are inclined to operate the firm to maximize financial performance as well as shareholders' profits. In this sense, it is believed that the firm's performance can directly impact perceptions of their individual performance. Abdullah and Valentine (2009) contend that executives and directors are also managing their careers in order to be seen as effective stewards of their organization. The theory also holds that managers do have similar interests to the corporation, in that the careers of each are linked to the attainment of organizational objectives, and their reputations are interwoven with the firm's performance and shareholder returns (Mattor & Cheng, 2015). Tricker (1984) described accountability in stewardship theory as the means by which those who manage and oversee the affairs of the company are held to account for their stewardship of corporate assets.

The International Accounting Standard Board (IASB) and Financial Accounting Standards Board (FASB) are developing a common conceptual framework which reflects financial statement as a sign of stewardship of the agents to the principles. The then IASB Framework issued in 1989 referred to stewardship as follows: Financial statements, in addition to providing information that is useful in making economic decisions, show the results of the stewardship of management or the accountability of the management for the resources entrusted to it. Tricker (1984) described accountability in stewardship theory as the means by which those who manage and oversee the affairs of the company are held to account for their stewardship if corporate assets.

2.2.4 Agency Theory

The history of this theory can be dated back to Jensen and Meckling (1976) and the discussion of the cause of the separation of the ownership and control. Jensen and Meckling (1976) suggests that managers of other people's money cannot be expected to watch over it with the same anxious vigilance one would expect from owners and that negligence and profusion, hence, must always prevail in the management of the affairs of such a company. To curtail such behaviour, effective control by the board would greatly help. The effectiveness of the board monitoring depends among others, on subcommittees of the Board (Kibiya, Che-hmad & Amran, 2016). Also Shi and Zhou (2012) argue that board audit as a sub-committee and their financial expertise are found to affect the level of the way managers manipulate earnings to achieve corporate or personal benefit.

Similarly, Dhaliwal, Naiker and Navissi (2010) posit that the ability to adequately supervise the activities and constrain opportunistically managed earnings lies with effective internal corporate governance mechanisms. Internal governance mechanisms involve among others, the formation of an independent audit committee that would supervise the activities of managers and ensure strict compliance with the financial regulations. However, the effectiveness of the committee depends on its composition and the expertise of its members. Also, the impact of high status industry experience (Kibiya, Che-Ahmad & Amran, 2016), accounting expertise and accounting and industry experts (Cohen *et al.,* 2014) have been subject to conflicting findings.

Bradbury (1990) analyzed the incentives for voluntary formation of audit committees. The results of this study indicated that while agency cost variables and audit firm size had no associations with audit committee formation, the number of directors on the board and inter-corporate ownership were found to be important determinants of voluntary audit committees. Willekens *et al* (2004) investigated the associations between the voluntary formation of audit committees and some factors that could influence such formation using data from Belgian listed companies. They found that while the proportion of independent directors on the board and the size of the external audit firm were positively associated with the voluntary formation of audit committees, agency costs and board size were not related to the voluntary formation of such committees.

Cohen, Krishnamoorthy and Wright (2004) conducted a survey to examine the perceptions of audit committee chairs, management, external auditors and internal auditors about agency conflict. They found evidence that agency conflicts exist between audit committees and management in areas related to financial disclosure and discretionary accounting procedures. However, the perceptions of audit committee chairs regarding issues affecting accounting choices were different from those of internal and external auditors.

2.3 Empirical Review

This section reviewed literature from prior scholars regarding auditor independence and quality of financial reporting.

2.3.1 Audit Independence and Quality of Financial Reporting

According to Madakawi (2012) conducted a study on the audit characteristics and financial reporting quality in Nigerian listed companies. This study aimed to investigate the effect of audit committee characteristics on the quality of financial reporting of Nigerian listed firms. The study employed multivariate regression analysis with a sample size of 101 and firms-year longitudinal panels of 505 observations of non-financial listed companies on Nigerian Stock Exchange for the period 2010 to 2014. The results showed that control variables; company age and company size are statistically significant. Audit committee share ownership, and financial expertise are positive and statistically significant, indicating that audit committee monitoring mechanisms influence the financial reporting quality of listed nonfinancial firms in Nigeria. Regulatory bodies in Nigeria should mandate all the three board representatives on audit committee to be non-executive directors, while making a combination of financial and industrial expertise replace financial literacy to further improve the quality of the financial reporting.

According to Madakawi (2012) study was conducted on Nigerian listed companies. The study further focused on share ownership and financial expertise while Madawaki and Amran (2013) on the other hand, focused on audit committees and how they affect financial reporting in Nigerian companies. The study examined whether audit committees are associated with improved financial reporting quality for a sample of Nigerian listed companies prior to and after a corporate governance code mandated new regulations for audit committees in 2003. Using a sample of 70 companies listed on the Nigerian Stock Exchange, their study used archival data in the form of company's annual reports to measure the association between audit committees and improved financial reporting quality. The results indicated that formation of audit committees was positively associated with improved financial reporting quality. It was also found that audit committees having an independent chair and audit committee expertise were positively associated with financial reporting quality. Other audit committee characteristics examined were found to be insignificantly related to financial reporting quality.

According to Moses, Ofurum and Egbe (2014) studied audit committee characteristics and quality of financial reporting in quoted Nigerian banks. The research was carried out to statistically examine the influence of audit committee characteristics on quality of financial reporting in listed Nigerian banks. The study used financial records from the financial statements of fifteen twelve-monthly reports and accounts of the banks whose stocks are traded in the Nigerian Stock Exchange. The study utilized correlation research design. The test of hypotheses and other breakdown of data were empirically completed by SPSS statistic 22.0. The outcomes of the study depicted that audit committee independence had no significant effect on earnings management in quoted Nigerian banks. The study endorsed that audit committee should be well-thought-out and operational so as to curtail earnings management.

According to Moses, Ofurum and Egbe (2014) study focused on commercial banks in Nigeria while the current study focused on non-commercial state corporations in Kenya. The study further employed correlation research design while the current study utilized descriptive research design. The focus of the study was on audit committee independence while in the current study, the focus was on independence, diversity, financial competence and meetings.

2.3.2 Auditor Non-Audit Services to Clients

Regulators' concerns that the provision of non-audit services impairs auditor independence (Levitt, 1998; SEC, 2000) gave rise to several studies that examine whether the provision of non-audit services impairs audit quality. These studies report seemingly conflicting results depending on the proxy of audit quality used. Research indicates that auditors' provision of non-audit services creates economic bonds on the auditor and may potentially cause the auditor to be financially reliant on the client (DeAngelo, 1981) and lose objectivity. On the contrary, mandating firm rotation would lead to a loss of client knowledge when the auditor is forced to resign. Auditors experience a significant learning curve with new clients (Knapp, 1991), and much of the knowledge acquired during an audit is client specific (Kinney & McDaniel, 1996). Audit failures are generally higher in the first years of the auditor-client relationship as the new auditor becomes familiar with the client's operations (Arel, Brody & Pany, 2005). Audit costs would also rise due to the additional work needed by the new audit firm.

In contrast, Francis and Ke (2006) document that market response to quarterly earnings surprises is significantly lower for firms with higher non-audit fees. Krishnan, Sami, and Zhang (2005) also find a negative association between non-audit fees and earnings response coefficients in each of the three quarters following the proxy statement public disclosure of fee information. The researcher follow prior literature that argues auditors/audit firms that specialize in particular industries build expertise in these specific areas and make greater specific investments in building up a reputation of good quality.

2.3.3 Audit Rotation and Quality of Financial Reporting

A system of mandatory audits rotation would require companies to rotate their independent auditor periodically. Currently, listed companies in Italy and Brazil are required to rotate their independent auditor every nine and five years respectively. In Australia, there is currently no legislative requirement for reporting entities to rotate their independent audit firm, although periodic rotation of lead audit partners is now obligatory under s324DA of the Corporations Act 2001 (Cth). In Nigeria too, there is agitation for audit firm rotation. Advocates of audit firm rotation believe a scheme of compulsory rotation would prevent auditors from becoming too aligned with managers, impacting on their independence. A client may be a significant source of revenue for an auditor, and the auditor may be reluctant to jeopardize this revenue stream (Hoyle, 1978). Firm rotation may also help to prevent large-scale corporate collapses. On the contrary, mandating firm rotation would lead to a loss of client knowledge when the auditor is forced to resign. Auditors experience a significant learning curve with new clients (Knapp, 1991), and much of the knowledge acquired during an audit is client specific (Kinney and McDaniel, 1996). Audit failures are generally higher in the first years of the auditor-client relationship as the new auditor becomes familiar with the client's operations (Arel et al., 2005).

Audit costs would also rise due to the additional work needed by the new audit firm. Accounting and Auditing Enforcement Releases (AAERs), or restatements as measures of audit quality is both a strength and a limitation of the above studies. It is a strength in that they provide an unambiguous measure of quality. It is a weakness in that it may limit generalizability and work against finding a relation between tenure and audit quality. The basic arguments for and against mandatory auditor rotation appear in numerous reports and articles. Briefly, the basic argument for mandatory rotation is that it provides a "fresh look" at a client's financial statements and changes the economic incentives of the auditor. Proponents of mandatory auditor rotation claim that it will provide a powerful peer review effect (Seidman 2001; Biggs 2002; Public Oversight Board, 2002). Further, they argue that mandatory rotation reduces the present value to the auditor of the auditor-client relationship, thus mitigating incentives to reduce objectivity (Biggs 2002; Bazerman, Morgan, and Lowenstein 1997; Moore, Tetlock, Tanlu, and Bazerman 2006).

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Research Design

This research was design to represent the influence of auditors' independence on the quality of financial reporting in Nigeria. The survey research design was used during the research period. The survey research method was used to gather information from respondent concerning their opinions on the impact of auditors' independence on qualities of financial reporting. This research was considered appropriate because it facilitate a comprehensive and detailed view of the major questions raised in the study. According to Saunders, Rineheart, Lewis and Thurnhill (2007), survey research design may be used to suggest possible reasons for particular relationship between variables. It permits control over the research process (Descombe, 2003).

3.1 Population

The population of the study comprises of the 21 deposit money banks (DMBs) in Nigeria as at 31 December 2018 (Appendix II). Four banks were purposively selected based on events criteria of those with complete information and consistently listed at the stock market as at the time of the study (Appendix III).

3.2 Sample Size and Sampling Technique

Esan and Okafor (1995) described sample as a subset of a population selected to meet specific objectives. It would result in the reduction of the amount of data to be collected by considering only data from a subgroup rather than possible element. The sample size of this study comprises of the 4 DMB in Nigeria. The staff of these four selected banks were used to proxy the respondents for the survey study.

3.3 Method of Data Collection

The method of data collection for this research work is the primary data which is the use of questionnaire. The questionnaire was administered to 50 staff each of the four DMBs selected out of which 150 were returned completed. This represent 75% retrieval rate. The items in the instrument were mainly self-designed after consideration of many factors.

3.4 Research Instrument

The research instrument was subjected to the content validity. According to Kerlineger (1973) Content validity is the extent to which the test adequately covers the areas, syllabus or the same segment designed to be tested. The research instrument is the questionnaire, which will consist of two parts: the first is the respondent demographic data and the second part is the research question. The research instrument was divided into 3 sections A,B and C. section BAND C were adapted in form of a Linkert scale, which had 5 point scale up strongly disagree (SD) as 1, Disagree (D)2, neither agree nor disagree as 3, Agree and Strongly Agree as 4 and 5. Respondent indicated their opinion with respect to auditors' independence and the quality of financial reporting. Section A contains questions on demographical data of the respondent with respect to gender, age, educational qualification, professional level and work experience. Section B contains items designed to measure the qualitative quality of financial reporting and the variables included in this section are the depended variable such as earning management, financial misstatement and timeliness. Section c contains items from the independent variable such as auditors' relationship with financial statement, auditors' non-audit services to clients and auditors rotation.

3.4.1 Validity Test of Research Instrument

Content Validity- The instruments were given to experts in the department of Accounting and Finance in Mountain Top University. These experts are versed in research and their observations and correction were effected in the final questionnaire.

3.4.2 Reliability of Test

This is more concerned with the property of instrument to check if the questions in the survey have the same type of response when the condition is the same. The result of a pilot study conducted between May and June 2019 with the research instrument administered on 60 staff of Selected institutions of learning, banks and stock brokers is shown below.

S/N	DEPENDENT VARIABLE: Quality of Financial Reporting	No of ITEM	CRONBACH'S ALPHA COEFFICIENT
1.	Earnings management	4	0.897
2.	Financial restatement	4	0.869
3.	Timeliness	4	0.978
	Independent variable: Auditors' independence		
1.	Auditors relationship with quality of financial reporting	4	0.867
2.	Auditor's non-audit services to clients	4	0.987
3.	Auditors Rotation	4	0.875

Research's pilot study- SPSS output (2019

The general convention in research has been prescribed by Nunnally & Bernstein (1994). Which states that one should strive for reliability value of 0.7000 or higher. It is worthy to know that the larger items in our construct, the more reliable our scale will become. The alpha value of the items relating to each variable from the test were all more than this acceptable minimum, hence the result indicated that the item relating to the variable are highly reliable.

3.5 Method of Data Analysis

This study utilized scientific method such as SPSS variant 21 to analyze the data collected. Descriptive statistics was used to analyze the demographical data to determine percentage, mean, standard deviation and variance. Multi regression analysis was used to determine if there was any significant effect on one variable or the other while correlational analysis was used to measure the strength of association between variables. Regression analysis focus on relationship between a dependent variable and one or more independent variable. It helped to understand how the typical value of the dependent variable changes when a unit of the independent variable is varied, while the other independent variable are held fixed. The correlation coefficient which is a measure of linear relationship between variables has its values ranging between -1 and +1, a correlation coefficient of +1 indicates that two variables are perfectly related in a positive linear sense while a correlation relation of -1 are perfectly related in a negative linear sense. Correlation coefficient of zero indicates that there is no relationship between the two variable.

3.6 Model Specification

The dependent variable which is the Quality of Financial Reporting (QFR) will show the result of the effect of any resulting change in Auditor Independence (which is the independent variable).

Auditor's independence (AI) will be tested using Relationship between auditors' independence and the quality of financial reporting (RAF), Auditors non-audit service to client (ANA) and Auditors rotation impact (ARI).

QFR = f (AI)

AI = f (RAF, ANA & ARI)

$QFR = \alpha_1 + \beta_1 RAF + \beta_2 ANA + \beta_3 ARI + \mathcal{E}\tau$

Where,

QFR = Quality of financial reporting

AI= Auditors independence

RAF= Relationship between auditors independence and quality of financial reporting

ANA= Auditors non-audit

ARI= Auditors rotation impact

α_1= constant term

β_1, β_2& β_3= coefficient of RAF, ANA & ARI respectively

$\mathcal{E}\tau$= Error term

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.0 Introduction

This chapter covers analysis of data, presentation and discussion of results. Data on questionnaire response rate, demographic variables, descriptive and inferential statistics were presented, analyzed and discussed.

4.1 Presentation of Questionnaire Response Rate

Two hundred (200) copies of questionnaire were administered on account and audit units staff of the selected banks. Fifty (50) copies were not returned while one hundred and fifty (150) were retuned and found suitable for data analysis. This leads to 75% response rate (Table 4.1).

Table 4.1: Questionnaire Response Rate

Copies of questionnaire administered	200
Copies not returned	50
Copies returned	150
Copies Used	150
Response Rate	75%

Source: Field Survey (2019)

4.2 Descriptive Statistics

Descriptive statistics include presentation of percentages and means of the demographic data and the dependent and independent variables of the study.

4.2.1 Demographic Variables

Table 4.1 shows the gender distribution of the respondents. Out of the 150 respondents, 67 (44.7%) were female while 83(55.3%) were male. This result implies that the study is gender sensitive since the proportions of female and male participants were very close.

Table 4.1: Gender of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	67	44.7	44.7	44.7
	Male	83	55.3	55.3	100.0
	Total	150	100.0	100.0	

Source: Field Survey (2019)

Age distribution of the respondents was presented in table 4.2. From the 150 respondents, 28 (18.7%) were less than 21 years in age while 76 (50.7%) were within the age bracket of 21-30 years. Also, 34 (22.7%) were within the age range of 31-40 while 5 (3.3%) were within the age bracket of 41-50. However, 7(4.7%) participants were greater than 50 years in age. This outcome implies that the majority of the participants are young managers with possible capacity for knowledge acquisition which will bear on their response to the topical issues raised in this study.

Table 4.2: Age of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<21	28	18.7	18.7	18.7
	21-30	76	50.7	50.7	69.3
	31-40	34	22.7	22.7	92.0
	41-50	5	3.3	3.3	95.3
	>50	7	4.7	4.7	100.0
	Total	150	100.0	100.0	

Source: Field Survey (2019)

Table 4.3 presents the distribution of the respondents according to their marital status. 44(29.3%) of the participants were married while 20(13.3%) of the participants were single. 5(3.3%) were divorced while 81(54.0%) were separated. This outcome implies that most of the respondents are matured adults and will be suitable for this study.

Table 4.3: Marital Status of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Married	44	29.3	29.3	29.3
	Single	20	13.3	13.3	42.7
	Divorced	5	3.3	3.3	46.0
	Separate	81	54.0	54.0	100.0
	Total	150	100.0	100.0	

Source: Field Survey (2019)

Table 4.4 reveals the distribution of the respondents according to the level of educational qualifications. Out of the 150 respondents, 14(9.3%) hold SSCE/GCE Certificates, 3(2.0%) have OND/HND Certificates, 5(3.3%) are with BA/BSc Degree Certificates, 86(57.3%) have MSc/PhD Certificates, 42(28.0%) have only professional qualifications. Most of these respondents have post graduate degrees. The implication of this outcome is that the participants are academically equipped and knowledgeable to be able to provide reasonable answers to the technical issues raised in the questionnaire.

Table 4.4: Educational Qualification of the Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	SSCE/GCE	14	9.3	9.3	9.3
	OND/HND	3	2.0	2.0	11.3
	BA/BSc.	5	3.3	3.3	14.7
	MSc/PhD	86	57.3	57.3	72.0
	Professional	42	28.0	28.0	100.0
	Total	150	100.0	100.0	

Source: Field Survey (2019)

Distribution of the respondents along religion affiliation was shown in table 4.5. From the 150 participants, 81 representing 54% are Christians while 69 which is equivalent to 46% are Muslims. It can therefore be opined that the participants are fairly distributed along the line of the two major religions in Nigeria which portends that the participants are morally equipped to give unbiased response to the questions raised in this study.

Table 4.5: Religion Affiliation of the Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Christian	81	54.0	54.0	54.0
	Muslim	69	46.0	46.0	100.0
	Total	150	100.0	100.0	

Source: Field Survey (2019)

Table 4.6 presents the distribution of the respondents according to the years of experience they have garnered on the job. Out of the 150 participants, 17(11.3%) have less than 5 years of experience, 56(37.3%) have between 5 to years in the banking industry, 77(51.3%) have spent more than 10 years on the banking job. This result implies that majority of the respondent are well experienced and will be able to provide answers to the topical issues raised in this study.

Table 4.6: Years of Experience of the Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<5 years	17	11.3	11.3	11.3
	5-10 years	56	37.3	37.3	48.7
	>10 years	77	51.3	51.3	100.0
	Total	150	100.0	100.0	

Source: Field Survey (2019)

4.2.2: Descriptive Statistics on Auditor's Independence

Descriptive statistics on auditor's independence was contained in Table 4.7. The opinions of the participants were sought whether there is relationship between auditors' independence and quality of financial reporting in deposit money banks. Out of the 150 participants, 4(2.7%) strongly disagreed to this proposition, 13(8.7%) disagreed, 36(24%) were indifferent, 40(26.7%) strongly agreed while 57(38%) strongly agreed to the proposition. With a mean of 3.8867, it can be assumed that majority of the participants agreed that there is a relationship between auditors' independence and quality of financial reporting.

On whether auditors' independence is irrelevant in determining the quality of financial reporting, 11(7.3%) strongly disagreed, 39(26%) disagreed, 31(20.7%) were indifferent, 46(30.7%) agreed while 23(15.3%) strongly agreed. With a mean value of 3.2067, it can be deduced that most of the respondents were indifferent on this issue.

In relation to whether an auditor can be a blood relative of any of the board of director's members and still maintains the quality of financial reporting, 15 (10%) participants strongly disagreed, 25(16.7%) disagreed, 51(34.0%) were indifferent, 30(32.0%) agreed while 29(19.3%) strongly agreed. With a mean value of 3.2200, it can be deduced that most of the respondents were indifferent.

The researcher was interested in knowing if auditors' independence can be influenced by management of the audited company by rejecting gifts and undue fees from the company. 5(3.3%) strongly disagreed, 9(6.0%) disagreed, 43(28.7%) were indifferent, 50(33.3%) agreed while 43(28.7%) strongly agreed. With a mean value of 3.7867, it can be deduced that most of the respondents agreed that auditors' independence can be influenced by management of the audited company by rejecting gifts and undue fees from the company.

Table 4.7: Descriptive Analysis of Response on Auditors' Independence

SN	View	SD 1 (%)	D 2 (%)	N 3 (%)	A 4 (%)	SA 5 (%)	Mean	SD
1	There is a relationship between auditors' independence and quality of financial reporting.	4(2.7)	13(8.7)	36(24.0)	40(26.7)	57(38.0)	3.8867	1.09628
2	Auditors' independence is irrelevant in determining the quality of financial reporting.	11(7.3)	39(26.0)	31(20.7)	46(30.7)	23(15.3)	3.2067	1.20009
3	An Auditor can be a blood relative of any of the board of director's members and still maintains the quality of financial reporting.	15(10.0)	25(16.7)	51(34.0)	30(20.0)	29(19.3)	3.2200	1.22540
4	Auditors' Independence can be influenced by management of the audited company by rejecting gifts from the company.	5(3.3)	9(6.0)	43(28.7)	50(33.3)	43(28.7)	3.7867	1.04648
Summary of Results							**3.5250**	**1.14206**

Source: Field Survey (2019)

4.2.3: Non-Audit Service

The researcher wishes to know if an auditor can act as a solicitor for the audited company without affecting the quality of financial reporting of that company. 9(6.0%) strongly disagreed, 24(16%) disagreed, 29(19.3%) were indifferent, 49(32.7%) agreed while 39(26.0%) strongly agreed. With a mean value of 3.5667, it can be deduced that most of the respondents agreed that if an auditor act as a solicitor for the audited company, it will affect the quality of financial reporting of that company negatively.

The opinions of the participants were also sought on whether an auditor could advise the client company or act in an advisory position for the client. 7(4.7%) strongly disagreed, 34(22.7%) disagreed, 26(17.3%) were indifferent, 37(24.7%) agreed while 46(30.7%) strongly agreed. With a mean value of 3.5400, it can be deduced that most of the respondents agreed that an auditor could not advise the client company or act in an advisory position for the client without eroding his independence.

The question on whether an auditor of a company can be a director of a company and still be independent was also addressed. 14(9.3%) strongly disagreed, 22(14.7%) disagreed, 28(18.7%) were indifferent, 50(33.3%) agreed while 36(24.0%) strongly agreed. With a mean value of 3.4800, it can be deduced that most of the respondents were indifferent on whether an auditor of a company can be a director of a company and still be independent was also addressed.

Whether financial reporting quality is enhanced when the auditor carries out non-audit services as part of his services to the clients company was subjected to the opinions of the participants. 6(4.0%) strongly disagreed, 16(10.7%) disagreed, 30(20.0%) were indifferent, 52(34.7%) agreed while 46(30.7%) strongly agreed. With a mean value of 3.7733, it can be deduced that most of the respondents agreed that financial reporting quality is not enhanced when the auditor carries out non-audit services as part of his services to the clients company

Table 4.8: Descriptive Analysis of Response on Non-Audit Service

SN	View	SD 1 %	D 2 %	N 3 %	A 4 %	SA 5 %	Mean	SD
1	An Auditor can act as a solicitor for the audited company.	9(6.0)	24(16)	29(19.3)	49(32.7)	39(26.0)	3.5667	1.20634
2	An Auditor can advise the client company or act in an advisory position for the client.	7(4.7)	34(22.7)	26(17.3)	37(24.7)	46(30.7)	3.5400	1.26719
3	An Auditor of a company can be a director of a company and still be independent.	14(19.3)	22(14.7)	28(18.7)	50(33.3)	36(24.0)	3.4800	1.26236
4	Financial reporting quality is enhanced when the auditor carry out non-audit services as part of his services to the clients company.	6(4.0)	16(10.7)	30(20.0)	52(34.7)	46(30.7)	3.7733	1.11816
Summary of Results							**3.5900**	**1.21351**

Source: Field Survey (2019)

4.2.4: Audit Rotation

The researcher asked whether the audit team is made up of sufficient, suitable and competent experienced staff with provision made for knowledge retention on rotation of staff. 2(1.3%)

strongly disagreed, 10(6.7%) disagreed, 53(35.3%) were indifferent, 45(30.0%) agreed while 40(26.7%) strongly agreed. With a mean value of 3.7400, it can be deduced that most of the respondents agreed that the audit team is made up of sufficient, suitable and competent experienced staff with provision made for knowledge retention on rotation of staff.

The researcher also investigated whether the auditors of the audit team demonstrate appropriate technical knowledge and expertise when they are rotated. 0(0.0%) strongly disagreed, 13(8.7%) disagreed, 26(17.3%) were indifferent, 73(48.7%) agreed while 38(25.3%) strongly agreed. With a mean value of 3.9067, it can be deduced that most of the respondents agreed that the auditors of the audit team demonstrate appropriate technical knowledge and expertise when they are rotated.

The researcher further examined whether audit rotation leads to difficulty which affects the quality of financial reporting and auditors' independence. 4(2.7%) strongly disagreed, 16(10.7%) disagreed, 27(18.0%) were indifferent, 61(40.7%) agreed while 42(28.0%) strongly agreed. With a mean value of 3.8067, it can be deduced that most of the respondents agreed that audit rotation leads to difficulty which affects the quality of financial reporting and auditors' independence.

The rotation of the auditor leads to different approaches, concepts and principles used in appraising financial statements. 4(2.7%) strongly disagreed, 16(10.7%) disagreed, 21(14.0%) were indifferent, 57(38.0%) agreed while 52(34.0%) strongly agreed. With a mean value of 3.9133, it can be deduced that most of the respondents agreed that rotation of the auditor leads to different approaches, concepts and principles used in appraising financial statements.

Table 4.9: Descriptive Analysis of Response on Audit Rotation

SN	View	SD 1 %	D 2 %	N 3 %	A 4 %	SA 5 %	Mean	SD
1	The audit team is made up of sufficient, suitable and competent staff with provision made for knowledge retention on rotation of staff.	2(1.3)	10(6.7)	53(35.3)	45(30)	40(26.7)	3.7400	.97230
2	The auditors of the audit team demonstrate appropriate technical knowledge and expertise when they are rotated.	0(0.0)	13(8.7)	26(17.3)	73(48.7)	38(25.3)	3.9067	.87736
3	Auditor rotation leads to difficulty which affects the quality of financial reporting.	4(2.7)	16(10.7)	27(18.0)	61(40.7)	42(28.0)	3.8067	1.04719
4	The rotation of the auditor leads to different approaches, concepts and principles used in appraising financial statements.	4(2.7)	16(10.7)	21(14)	57(38)	52(34.7)	3.9133	1.07402
Summary of Results							**3.8417**	**.99272**

Source: Field Survey (2019)

4.2.5: Descriptive Statistics on the Quality of Financial Reporting

The statement “transparent disclosure of accounting and non-accounting information will influence the quality of financial reporting measured in terms of timeliness, financial restatement, earnings management and conservatism” was rated by the participants. 3(2.0%) strongly disagreed, 7(4.7%) disagreed, 13(8.7%) were indifferent, 38(25.3%) agreed while 89(59.3%) strongly agreed. With a mean value of 4.3533, it can be deduced that most of the respondents strongly agreed that transparent disclosure of accounting and non-accounting information will influence the quality of financial reporting measured in terms of timeliness, financial restatement, earnings management and conservatism.

The assertion “the quality of the accounting and auditing will influence in system place on the quality of financial reporting” was evaluated by the respondents. 6(4.0%) strongly disagreed, 11(7.3%) disagreed, 20(13.3%) were indifferent, 55(36.7%) agreed while 58(38.7%) strongly agreed. With a mean value of 3.9933, it can be deduced that most of the respondents agreed that the quality of the accounting and auditing will influence in system place on the quality of financial reporting.

Whether the level of compliance with regulatory and international treaties will influence the quality of financial reporting was rated by the participants. 3(2.0%) strongly disagreed, 11(7.3) disagreed, 14(9.3%) were indifferent, 37(24.7%) agreed while 85(56.7%) strongly agreed. With a mean value of 4.2667, it can be deduced that most of the respondents strongly agreed that the level of compliance with regulatory and international treaties will influence the quality of financial reporting was rated by the participants.

The belief that the level of technological innovations in place will influence the quality of financial reporting was subjected to the opinion of the respondents. 4(2.7%) strongly disagreed, 9(6.0%) disagreed, 38(25.3%) were indifferent, 38(25.3) agreed while 61(40.7%) strongly agreed. With a mean value of 3.9533, it can be deduced that most of the respondents agreed that the level of technological innovations in place will influence the quality of financial reporting.

The assumption that management credibility will influence the quality of financial reporting was rated by the participants. 2(1.3%) strongly disagreed, 3(2.0%) disagreed, 16(10.7%) were indifferent, 46(30.7%) agreed while 83(55.3%) strongly agreed. With a mean value of 4.3667, it can be deduced that most of the respondents strongly agreed that management credibility will influence the quality of financial reporting.

Table 4.10: Descriptive Analysis of Response on Quality of Financial Reporting

SN	View	SD 1 %	D 2 %	N 3 %	A 4 %	SA 5 %	Mean	SD
1	Transparent disclosure of accounting and non-accounting information will influence the quality of financial reporting	3(2.0)	7(4.7)	13(8.7)	38(25.5)	89(59.3)	4.3533	.96333
2	The quality of audit will influence in system place on the quality of financial reporting	6(4.0)	11(7.3)	20(13.3)	55(36.7)	58(38.7)	3.9933	1.09604

3	The level of compliance with regulatory and international treaties will influence the quality of financial reporting	3(2.0)	11(7.3)	14(9.3)	37(24.7)	85(56.7)	4.2667	1.03409
4	The level of technological innovations in place will influence the quality of financial reporting	4(2.7)	9(6.0)	38(25.3)	38(25.3)	61(40.7)	3.9533	1.07026
5	Management credibility will influence the quality of financial reporting.	2(1.3)	3(2.0)	16(10.7)	46(30.7)	83(55.3)	4.3667	.85465
Summary of Results							**4.1867**	**1.00367**

Source: Field Survey (2019)

4.3 Test of Hypotheses

Three hypotheses were formulated for this study. The hypotheses were tested with multiple regresssion and correlation analyses.

4.3.1 Correlation Analysis

Table 4.8 shows the results of correlation analysis. There were non-significant correlations among the independent variables namely; auditor's independence, non-audit services and audit rotation. Therefore the likelihood of multi-collinearity problem among the independent variables was very low. Positive significant correlation (r = .547, p-value = .035) was observed between auditor's independence and quality of financial reporting. This implies that as auditor's independence improves, quality of financial reporting will also improve. However, negative significant correlation (r = -.653, p-value = .003) was observed between non-audit services and quality of financial reporting. This implies that as the audit firm engages more in non-audit services, the quality of financial reporting will fall. Moreover, positive significant correlation (r = .571, p-value = .028) was observed between audit rotation and quality of financial reporting. This implies that as audit rotation improves, quality of financial reporting will also improve.

Table 4.8: Correlations

		Auditor's Independence (AI)	Non-Audit Service (NAS)	Audit Rotation (AR)	Quality of Financial Reporting (QFR)
AI	Pearson Correlation	1	.065	.032	.547**
	Sig. (2-tailed)		.891	.653	.035
	N	150	150	150	150
NAS	Pearson Correlation	.065	1	.036	-.653**
	Sig. (2-tailed)	.891		.784	.003
	N	150	150	150	150
AR	Pearson Correlation	.032	.036	1	.571**
	Sig. (2-tailed)	.653	.784		.028
	N	150	150	150	150
QFR	Pearson Correlation	.547**	-.653**	.571**	1
	Sig. (2-tailed)	.035	.003	.028	
	N	150	150	150	150

****. Correlation is significant at the 0.05 level (2-tailed).**

Source: Field Survey (2019)

4.3.2 Regression Analysis

The three hypotheses were tested with multiple regression analysis and t-test. The outcomes of these inferential statistics are presented in the following sub-sections.

4.2.2.1 Hypothesis One

Hypothesis one was raised to examine the effect of auditor's independence on financial reporting quality. It was stated in the null form as "Auditor's independence has no significant effect on the quality of financial reporting". Table 4.11 presents the model summary. The R Square (.496) shows that 49.6% variation in quality of financial reporting can be predicted by audit independence, non-audit service and audit rotation.

Table 4.11: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.704[a]	.496	.229	.67169

a. Predictors: (Constant), AR, AI, NAS

Source: Field Survey (2019)

Table 4.12 presents ANOVA results. The F-Value is fairly large and significant at p-value of .009. Field (2000) noted that large F-value is an indication of fitness of a model. Therefore, the model is of good fitness.

Table 4.12: ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	.724	3	2.241	28.535	.009[b]
1	Residual	65.870	146	3.451		
	Total	66.593	149			

a. Dependent Variable: QFR

b. Predictors: (Constant), AR, AI, NAS

Source: Field Survey (2019)

With respect to hypothesis one, table 4.12 revealed beta value and t-test value for auditor's independence are .540 and 3.691 respectively with significant p-value of .021. This outcome revealed positive significant relationship between auditor's independence and the quality of financial reporting. Hence, the null hypothesis was rejected and the alternative hypothesis was accepted. It can then be concluded that auditor's independence has significant effect on the quality of financial reporting in deposit money banks in Nigeria.

Table 4.12: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics
		B	Std. Error	Beta			Tolerance
1	(Constant)	3.940	.361		10.911	.000	
	Auditor's Independence	.540	.078	.620	3.691	.021	.834
	Non-audit Service	-.590	.062	-.910	-2.959	.039	.753
	Audit Rotation	.730	.088	.770	3.822	.012	.780

a. Dependent Variable: QFR

Source: Field Survey (2019

4.2.2.2 Hypothesis Two

Hypothesis two stated that "Non-audit service has no significant effect on quality of financial reporting". The regression output from table 4.12 revealed beta value and t-test value for non-audit services as -.590 and -2.959 respectively with significant p-value of .039. This outcome revealed negative significant relationship between non-audit services and the quality of financial reporting. Hence, the null hypothesis was rejected and the alternative hypothesis was accepted. It can therefore be concluded that non-audit services has significant negative effect on the quality of financial reporting in deposit money banks in Nigeria.

4.2.2.3 Hypothesis Three

Hypothesis three, on the other hand, stated that “Audit rotation has no significant effect on quality of financial reporting”. The regression output from table 4.12 revealed beta value and t-test value for audit rotation as .730 and 3.822 respectively with significant p-value of .012. This outcome revealed positive significant effect of audit rotation on the quality of financial reporting. Hence, the null hypothesis was rejected and the alternative hypothesis was accepted. It can therefore be suggested that audit rotation has significant positive effect on the quality of financial reporting in deposit money banks in Nigeria.

4.4 Discussion

The finding from this study reveals that auditor’s independence has positive significant effect on the quality of financial reporting in deposit money banks in Nigeria. This finding derived support from the studies of Madakawi (2012), Madawaki and Amran (2013) and Moses, Ofurum and Egbe (2014) that auditor’s independence was positively bassociated with improved financial reporting quality.

Further result from this study indicates that non-audit services have significant negative effect on the quality of financial reporting in deposit money banks in Nigeria. This outcome was supported by the proposition of DeAngelo (1881) that auditors’ provision of non-audit services creates economic bonds on the auditor and may potentially cause the auditor to be financially reliant on the client. Further support was derived from Krishnan, Sami, and Zhang (2005) that a negative association exists between non-audit fees and earnings response coefficients in each of the three quarters following the proxy statement public disclosure of fee information.

Another outcome of this study is that audit rotation has significant positive effect on the quality of financial reporting in deposit money banks in Nigeria. This result derived support from the arguments of Biggs (2002), Bazerman, Morgan, and Lowenstein (1997) and Moore, Tetlock, Tanlu, and Bazerman (2006) that mandatory rotation reduces inordinate auditor-client relationship, thus mitigating incentives to reduce objectivity. Hence conclusion can be drawn to auditor's independence, non-audit services and audit rotation have significant effects on financial reporting quality of deposit money banks sampled for this study.

CHAPTER FIVE

SUMMARY, CONCLUSSION AND RECOMMENDATIONS

5.0 Introduction

This chapter consists of summary of the work done, conclusion which was drawn from the findings of the study, recommendation which follows from the conclusion and suggestion for further studies.

5.1 Summary of Work Done

This study focused on the relationship between independence of the auditors and the quality of financial reporting of deposit money banks (DMBs) in Nigeria. Chapter one consists of background to the study, statement of the problem, research objectives, research questions, research hypotheses, significance of the study and definition of terms.

Chapter two covered conceptual, theoretical and empirical reviews. Variables examined in the study include auditor's independence, non-audit services, audit rotation and quality of financial reporting. From the empirical review, gaps in literature were identified which include data source and statistical tools and this study proceeded to fill these gaps.

Chapter three focused on research design, population of the study, sampling technique and data collection. Four banks were purposively selected based on events criteria of those with complete information and consistently listed at the stock market as at the time of the study. Copies of questionnaire were administered on account and audit staff of the selected banks at their various branch offices in Lagos State. Repeated visits and phone calls were explored to obtain reasonable response rate from the participants.

In chapter four, the data obtained from the field survey were subjected to rigorous descriptive and inferential statistics. The descriptive statistics includes percentages, means and standard deviation. The inferential statistics includes regression and correlation analysis.

The current chapters comprised summary of work done, conclusion, recommendations and suggestions for further studies. Major findings were highlighted while policy implications of these findings were also enumerated.

5.2 Conclusion

The effect of auditor's level of independence on financial reporting quality of deposit money banks was investigated in this study. This study reveals that auditor's independence has positive significant effect on the quality of financial reporting in deposit money banks in Nigeria. Further result from this study indicates that non-audit services have significant negative effect on the quality of financial reporting in deposit money banks in Nigeria. Another outcome of this study is that audit rotation has significant positive effect on the quality of financial reporting in deposit money banks in Nigeria. Hence conclusion can be drawn to auditor's independence, non-audit services and audit rotation have significant effects on financial reporting quality of deposit money banks sampled for this study.

5.3 Recommendations

Based on the conclusion of this study, the following recommendations were drawn:

1. Regulatory bodies and professional bodies should regulate and monitor the type and scope of non-audit services an auditor may engage in from time to time.
2. In the same vein, mandatory rotation of auditor of deposit money banks in Nigeria should be enforced by enabling regulatory organs like the central bank of Nigeria (CBN), Nigeria Security Exchange (NSE).

5.4 Suggestions for Further Studies

This study concentrated on deposit money banks. Other financial institutions like insurance companies and non-financial institutions were excluded. Future studies may focus on insurance industry or companies in the non-financial sector of the economy.

The variables explored to measure auditor's independence in this research work were limited to non-audit services and audit rotation. Other variables like audit fees, audit firm size and joint audit may be considered in further studies.

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Appendix I: Sample Questionnaire

QUESTIONNAIRE

Dear Sir/ Ma,

I am a 400 level student of Mountain Top University. I am writing a project on the above named topic in partial fulfillment of the requirements for the Bachelor of Science degree. I will appreciate it if the questionnaire is completed to the best of your knowledge with utmost sincerity so as to achieve credible results. The information provided will only be used for academic purpose, and will be treated with utmost confidentiality.

Please answer the following questions by ticking the one you consider most appropriate among the alternatives.

Thank you for your sincere cooperation.

Kindly answer the following questions by ticking (√) the option that best describes your agreement or filling the spaces provided.

SECTION A: DEMOGRAPHIC DATA

1. Gender: A. Female ☐ B. Male ☐

2. Age < 20 ☐ 21-30 ☐ 31-40 ☐ 41-50 ☐ > 50 ☐

3. Marital Status: Married ☐ Single ☐ divorced ☐ separated ☐

High Academic Qualification:

4. SSCE/GCE ☐ OND/DTP/HND ☐ BA/SC ☐ MSC/PH.D ☐ PROFESSIONAL ☐

5. Religion: Christian ☐ Muslim ☐ others ☐

6. Work Experience:

Below < 5 years ☐

5- 10years ☐

>10 years ☐

SECTION B: AUDITOR INDEPENDENCE AND QUALITY OF FIANACIAL REPORTING.

1.What is the relationship between auditors' independence and quality of financial reporting in Nigeria?

Please respond to the following statements by indicating the extent to which you agree or disagree with them. Use the following scale in answering; SD=1 stands for strongly Disagree, D=2 stands for Disagree, N=3 stands for Neutral, A=4 stands for Agree and SA=5 stands for Strongly Agree.

QUESTIONS	SD	D	N	A	SA
	1	2	3	4	5
There is a relationship between auditors independence and quality of financial reporting	4(2.7)				
Auditors Independence is irrelevant in determining the quality of financial reporting					
An Auditor can be a blood relative of any of the board of directors members and still maintain the quality of financial reporting					
Auditors Independence can be influenced by management of the audited company by rejecting gifts and undue fees from the company					

2.To what extent does the auditors non-audit services to clients influences the auditors' independence and quality of financial reporting?

Please respond to the following statements by indicating the extent to which you agree or disagree with them. Use the following scale in answering; SD=1 stands for strongly Disagree, D=2stands for Disagree, N=3stands for Neutral, A=4 stands for Agree and SA=5 stands for Strongly Agree.

QUESTIONS	SD	D	N	A	SA
	1	2	3	4	5
An Auditor can act as a solicitor for the audited company.					
An Auditor ca advice the client company or act in an advisory position for the client.					
An Auditor of a company can be a director of a company and still be independent.					
Financial reporting is enhanced when the auditor carry out non-audit services as part of his services to the clients company.					

3. How does auditors' rotation influence the auditors' independence and quality of financial reporting?

Please respond to the following statements by indicating the extent to which you agree or disagree with them. Use the following scale in answering; SD=1 stands for strongly Disagree, D=2 stands for Disagree, N=3 stands for Neutral, A=4 stands for Agree and SA=5 stands for Strongly Agree.

QUESTIONS	SD	D	N	A	SA
	1	2	3	4	5
The audit team is made up of sufficient, suitable and competent experienced staff with provision made for knowledge retention on rotation of staff.					
The auditors of the audit team demonstrate appropriate technical knowledge and expertise when they are rotated.					
Auditor rotation leads to difficulty which affects the quality of financial reporting and auditors' independence.					
The rotation of the auditor leads to different approaches, concepts and principles used in appraising financial statements.					

Section C

Measures of quality of financial reporting- the dependent variable

Please respond to the following statements by indicating the extent to which you agree or disagree with them. Use the following scale in answering; SD=1 stands for strongly Disagree, D=2 stands for Disagree, N=3 stands for Neutral, A=4 stands for Agree and SA=5 stands for Strongly Agree.

QUESTIONS	SD	D	N	A	SA
Qualitative Measures of quality of financial reporting in Nigeria	1	2	3	4	5
Transparent disclosure of accounting and non-accounting information will influence the quality of financial reporting measured in terms of timeliness, financial restatement, earnings management and conservatism.					
The quality of the accounting and auditing will influence in system place on the quality of financial reporting					

The level of compliance with regulatory and international treaties will influence the quality of financial reporting					
The level of technological innovations in place will influence the quality of financial reporting					
Management credibility will influence the quality of financial reporting.					

Appendix II: List of Deposit Money Banks (DMBs) in Nigeria

S/N	Deposit Money Banks
1.	Access Bank
2.	Diamond Bank
3.	GT Bank
4.	Union Bank
5.	First Bank
6.	Fidelity Bank
7.	Union Bank
8.	Skye Bank
9.	Wema Bank
10.	Polaris Bank
11.	Stanbic IBTC Bank
12.	Zenith Bank

13.	First City Monument Bank
14.	Keystone Bank
15.	Sterling Bank
16.	Unity Bank
17.	Citibank
18.	Heritage Bank
19.	Suntrust Bank
20.	Providus Bank
21.	Standard Chartered Bank
Category of staff	
Executive	183
Senior	16,905
Junior	39,909
Contract staff	43,593
Total	100,590

Source: Central Bank of Nigeria (2019); NBS-Banking Sector (2019)

Appendix III: List of Banks Selected

S/n	Selected Banks	Population	Questionnaire	No returned	No not return
1.	First Bank	7,616	50	45	5

2.	Zenith Bank	6,209	50	35	15
3.	Access Bank	9,000	50	30	20
4.	GTBank	7,669	50	40	10
		30,494	200	150	50

Source: Researcher Field Work (2019)