EFFECT OF AUDITORS' INDEPENDENCE ON AUDIT QUALITY IN THE NIGERIAN BANKING SECTOR

BY

ADEYEMO AANU RUTH.

15020101004

A PROJECT REPORT SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE, COLLEGE OF HUMANITIES, MANAGEMENT AND SOCIAL SCIENCES, MOUNTAIN TOP UNIVERSITY, OGUN STATE, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE BACHELOR DEGREE (B.Sc.) IN ACCOUNTING.

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DECLARATION

I hereby declare that this project report written under the supervision of Dr O. J. AKINYOMI, is a product of my own research work. Information derived from various sources have been duly acknowledged in the text and a list of references provided. This research project report has not been previously presented anywhere for the award of any degree or certificate.

ADEYEMO, AANU R. **DATE**

CERTIFICATION

This is to certify that this research project report titled **"EFFECT AUDITORS' INDEPENDENCE ON AUDIT QUALITY IN THE NIGERIAN BANKING SECTOR"** was carried out by **AANU, RUTH ADEYEMO,** with matriculation number 15020101004. 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.

Dr. Akinyomi, Oladele John **Date**
(Project Supervisor)

Dr. Akinyomi, Oladele John **Date**
(Head of Department)

DEDICATION

This project is dedicated to God almighty for seeing me through the completion of this project. I also want to dedicate this project to my parents, Mr. & Mrs. Adeyemo and also my guardian for their endless support. All I want to say is Doxology!!

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I ascribe all Glory and Honor to God Almighty who has made all things well.

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ABSTRACT

There's been debates over the years on how the independence of auditors affects the quality of audit report. This research was carried out in order to examine the effect of auditors' independence on audit quality. In carrying this study, 9 out of the 21 deposit money banks as validated by the Central bank of Nigeria and also National Bureau of statistics as at 31st December 2018 were selected based on the criteria of banks that are licensed with international Authorization. These 9 banks represent 42.86% of the deposit money banks in Nigeria as at the date. The study employed both primary and secondary data. The study captured the opinions of junior staff, senior staff, and Management staff in each of the 9 select banks. The primary data were got from one hundred and sixty seven returned and usable questionnaire, while the secondary data were generated from the audit financial statements of the 9 banks respectively from the period of 2012 -2018. The data gathered were used to test the hypotheses and answer some of the research questions. The study found a significant and positive relationship between auditors' independence and audit quality

Keywords: Auditors' Independence, Audit Quality, Audit Fees, Audit Tenure, Audit Rotation, Audit Committee.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The independence of auditors is the core of audit tasks (Felix, 2015). Auditors have an over bearing position in government capital markets as ' gatekeepers '(Esther & Adebola, 2017).By certifying the precision of the financial statements of a company the auditor gives the firm its credibility and its financial health by expressing a professional opinion as to whether the financial statements give a real and honest perspective and are correctly ready under the Companies and the Allied Matters Act (CAMA, 2004 ; Adeyemi & Olowookere, 2012 ; Esther & Adebola, 2017).

The impact of the absence of independence of the auditor can adversely influence the audit process; the quality of the audit has been impacted. (Felix, 2015) Amazing. Research on the quality of an audit report has increased tremendously, according to Tobi, Osasere, Emmanuel, (2016), Research on the quality of an audit report has increased dramatically, with several variables contributing to this resulting from the increasing significance of the system of good governance resulting from extremely publicized accounting scandals in Nigeria and around the world. These scandals led in the collapse of businesses like 1998's Cadbury Nigeria Management Scandal, 2001's Enron Scandal, 2002's WorldCom scandal, 2003's HealthSouth scandal, 2008's Lehman Brothers scandal, 2009's Satyam scandal and drawing the attention of multiple groups of individuals to the importance of corporate governance (Akinyomi & Olutoye, 2015).

The independence of auditors became a significant topic of global debate after the Enron scandal. The present regulatory framework regulating independence is insufficient by academics and scientists in this sector (Roy & Saha, 2018). If an auditor does not detect creative accounting and fraudulent activities, his reputation will suffer. The auditors will be held accountable by shareholders in the case of a collapse and can be penalized with enormous charges, suspended from the provision of audit facilities or even compelled in extreme situations to cease activities (Roy & Saha, 2018).Examples of some of the extreme cases are the Enron scandal (USA2001) where at the time of the scandal Arthur Anderson was the statutory auditor. Due to supposed participation in the fraud, its reputation worsened. Arthur Anderson was compelled to shut down his operation in the USA and also in the case of KPMG (Germany 2002) where the auditor engaged in the Com Road scandal failed to identify the company's fictional transactions (Roy & Saha, 2018).

A 2010 study by Otusanya and Lauwo discovered that accounts of questionable accounting procedures taken by some Nigerian businesses have brought the problem of the independence of auditors to the forefront and put the legitimacy of the profession in question (Tobi, Osasere & Emmanuel, 2016).As a consequence of all these dubious accounting methods carried out by businesses, auditors have been pressured to guarantee that their accounts are correctly accounted for by investors whose funds are invested in those businesses.

There are currently two recognized accounting bodies in Nigeria, the Institute of Chartered Accountants of Nigeria (ICAN) and the National Accountant Association of Nigeria (ANAN).These professional accounting bodies are saddled with responsibility for regulating accounting procedures in Nigeria. The Companies and Allied Matters Act (CAMA, 2004) specified that each corporation must appoint an internal auditor, who is needed by legislation to express an autonomous opinion on the current situation of these companies, whether it is or not they have a real and honest perspective of the corporation's financial declaration. CAMA (2004) also states that each auditor shall have the right to access the books, reports and vouchers of the company at all times and the information and explanations that may be necessary in performance of the audit work.

1.2 Statement of Problem

Adeyemi and Okpala (2011) stated that the audit report is the channel through which the auditor expresses his view on his financial statement. The auditor may want to produce an unqualified report, even if the condition on the floor shows otherwise, due to the familiarity, the risk to replace a check, the availability of bookkeeping facilities by the auditor and many others. This raises questions about an auditor’s independence. Independence is the cornerstone of accountability (Tulung & Ramdani, 2018).The difficulty is that corporate management hires, fires, and pays their inner and external auditors. Therefore, auditors create good management relationships to maintain the client's work. Thus, they may not be autonomous of the corporate management .In the United States of America, the Sarbanes Oxley Act prohibits auditors from offering their customers with non-audit services. However, auditors will understandably want to maintain their customers as long as possible (Tulung & Ramdani, 2018). Nigeria has experienced a series of audit of audit errors, some leading to numbers being restated in the economic statements (Adeyemi & Okpala, 2011). For instance, Lever Brothers, African Petroleum and Cadbury, just to mention a couple of important ones. Although no comprehensive investigation showed that the auditor’s independence was impaired owing to these audit mistakes, it could reasonably be assumed to be a contributing factor (Adeyemi & Okpala, 2011).Many researchers in developed nations have been investigating the extent of independence from auditing. For instance, Zhang, Zhou and Zhou (2017), Ismail, Isklandar and Rahmat (2018). All these studies were conceptualized and carried out from the perspective of developed nations.

Several studies (Dopuch, King and Schwartz, 2001 ; Myers, Myers and Omer, 2003 ; Enofe, Okumega and Ediae, 2013) tried to assess possible explanatory variables for audit quality, concentrating on the connection between company specific and audit firm specific factors that could mediate audit quality. With these research at the center of many debates, the tenure of the audit is the focus of much discussion.The question was whether auditors should be regularly replaced or permitted to build a long-term customer relationship (Enofe, Okumega & Ediae, 2013).The crux of the discussion lies in how tenure impacts the auditor's independence. Compulsory auditor rotation advocates claim that lengthy auditing tenure of the audit erodes independence. There is, however, a shortage of empirical studies in the same direction in Nigeria. Therefore, the foregoing prospects make it desirable to investigate the effect of the independence of auditors on corporate financial reporting in Nigeria.

1.3 Objective of the study

The main objective of the study is to determine the effect of Auditors' independence on Audit quality in Nigeria. The following are the specific objectives:

i. To examine the effect of audit fee on audit quality in Nigerian Banking Sector.

ii. To ascertain the effect of audit firm tenure on audit quality in Nigerian Banking Sector

iii. To investigate the effect of collection of loans and other credit facilities on audit quality in Nigerian Banking Sector.

1.4 Research questions

In line with the objective of the study, the following research questions have been posed:

i. What is the relationship between audit fee and audit quality in the Nigerian Banking Sector?

ii. What is the relationship between audit firm tenure and audit quality in the Nigerian Banking Sector?

iii. What is the relationship between collection of loans and other credit facilities; and audit quality in the Nigerian Banking Sector?

1.5 Research hypotheses

The following hypotheses have been formulated to serve a base for this research; thus

$H_0$1: There is no significant relationship between audit fee and audit quality in the Nigerian Banking Sector.

$H_0$2: There is no significant relationship between audit firm tenure and audit quality in the Nigerian Banking Sector.

$H_0$3: There is no significant relationship between collection of loans and other credit facilities; and audit quality in Nigerian Banking Sector .

1.6 Significance of the Study

The importance of this research cannot be overemphasized as this study has the ability to make auditors see the need to preserve their integrity and not impair their independence as auditors. It is anticipated that this research will provide helpful insight to improve audit performance. The results of this study will assist audit firms and management or company directors in further assessing the need for compliance with the relevant Statement of Accounting Standard (SAS) and International Financial Reporting Standards (IFRS).The problem of independence from auditing is continuous and becoming increasingly contentious. This research therefore adds to the audit literature as it offers extra empiric proof on the effect on audit results quality of auditor's autonomy.

1.7 Scope of the Study

This research is based on the assessment of audit independence and audit quality in Lagos state's Nigerian banking sector. The banks to be considered are those banks licensed with International Authorization. Lagos state is selected because it is Nigeria's corporate capital and constitutes all of the country's main geographical and socio-political divisions. A well designed study in Lagos will therefore be a good representative of the country's corporate population, Nigeria.

1.8 Limitation of the study

This study is limited by the following factors:

Time: due to the limited time, examining a large sample size will be difficult to achieve

Retrieval of questionnaires: there will be challenges in retrieving questionnaires and it will be unrealistic to expect all questionnaires to be retrieved and if retrieved, some respondents might not provide relevant responses to the questionnaires.

Fund: There are limit to certain online libraries and likewise travelling to specific areas where more data would be collected.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

A literature review is essential as it illustrates the state of the art in the field of research. In this chapter efforts were made to examine the view of prominent writers, scholars, academics, and intellectual in their contribution to the literature on the impact of auditors' independence on audit quality.

2.1 Conceptual review

2.1.1Auditor independence:

This refers to an external auditor's capacity to behave with integrity and impartiality during his/her auditing tasks Independent auditors are regarded as the government securities market's "gatekeepers" (SEC 2000) auditor's independence is defined as the capacity of the auditor to retain an objective and impartial mental attitude throughout the audit. Auditor independence is defined as having a role in audit test results, outcomes assessment, and attestation of unbiased view in the audit report.

2.1.2Audit quality

Arens, Elder and Beasley (2011) define audit quality as well as the detection and reporting of financial statement material mistakes. The detection elements reflect the competence of the auditor, while reporting reflects ethics or integrity of the auditor, especially independence. An audit is an autonomous examination of the financial statement of a company prepared by an appointed individual by the management of that company in order to express a competent opinion on if or not these financial statements give a real and honest opinion of the situation of the company at the end of the financial year and in accordance with the relevant statutory and professional regulations (Enofe, Ngbame, Okunega & Ediae, 2013).

2.1.3 Determinants of Auditors Independence

A number of variables that impact audit independence have been recognized in the literature. These factors include: the auditing firm's size ; the amount of competition on the audit services market ; the tenure of audit companies serving a client's requirements ; the size of audit charges received by audit companies ; the provision to audit customers of managerial advisory services by audit companies ; and the presence of an audit committee.

2.1.4 Size of Audit Firms

Larger audit companies are often regarded more capable of resisting management pressure (i.e. the independence of a greater auditor). In their empirical research, Abu Bakar and Ahmad, 2009 demonstrated that there is a favorable connection between the size of the Audit Company and independence of the audit company. They asserted that the risk of impairing independence may be increased by certain features intrinsic in tiny audit practice. For example, 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 ability to resist pressures from clients, as happened with Arthur Anderson and Enron.

2.1.5 Level of Competition in Audit

Competition has been recognized as the most significant environmental or external factor influencing the independence of auditors' .firms operating in an intensely competitive environment may have difficulty remaining independent as another auditor's services can be easily obtained by the client. Shockley, 1981 cited in Haron, Ismail, Ganesan and Hamzah, (2016) demonstrated that the audit firm's elevated level of rivalry resulted in less independence from the auditor. However, the contrary was discovered by Gul (1989) cited in Yip and Elvy, (2017), .He asserted that the presence of competition has resulted in auditors being more autonomous and creating a favorable picture to retain their customers.

2.1.6 Tenure of an Audit Firm

The tenure of an audit firm, which is the length of moment it has filled out the audit requirements of a particular client, was noted as having an impact on the danger of losing the independence of an auditor. A long association between a company and an accounting firm can lead to such close identification of the accounting firm with the interests of the leadership of its client that it becomes hard to point out that after a lengthy association, complacency, lack of innovation, less strict audit processes and learned confidence in the client can occur.

The U.S. Congressional Subcommittee on Reports, Accounting and Management regarded that the above risks are sufficiently severe to recommend auditors ' compulsory rotation as a possible remedy. Rotation ensures that the auditor remains independent as tenure is limited and any interest is no longer relevant. Nevertheless, this suggestion was opposed, since tenure was not found to have a significant impact on independence perception in studies conducted by Shockley in 1981.

2.1.7 Size of Audit Fees Received by Audit

Large audit charges are usually coupled with an increased danger of losing the independence of the auditor. The IFAC Code of Ethics for Professional Accountants indicates that customer size (measured by fee size) may raise doubts about independence. In Malaysia, the MIS By Law (Section B1.98 on Professional Independence) emphasized that "if the total fees (derived from insurance and noninsurance services) generated by one assurance client or related entities exceed 15 percent of the total fees of the company over two consecutive financial periods in each year, financial dependence shall be deemed to exist, in which case self-interest threat to independence shall exist. The only way forward in such a case is to refuse to perform or withdraw from the commitment to assurance.

Most empirical studies conducted on the size of audit fees do not look at the factor above, but interrelate it with other factors. For instance, Shockley, 1981 suggests that the adverse effects of Management Advisory Services, the size of the audit firm and competitive on the independence of an audit third party actually arise due to the link between these variables and audit fees. There is a study, however, which proves otherwise. Gul, 1989 demonstrated that each independence variable, namely Management Advisory Services, Competition and the size of the audit company, was linked to its own right after audit independence. He also found that the size of the audit fees was an important determinant of the audit fee (measured as a percentage of the audit firm's office revenue), although there was no significant impact on the independence of the audit, influenced respondents to feel less confidence in the independence of the auditor. A wide ranging discussion is raging in the literature on consulting and audit service compatibility.

2.1.8 Provision of Management Advisory Services (MAS) by Auditors.

MAS may include strategic management planning of investment banking, human resource planning, internal audit outsourcing of computer hardware and software installation, risk assessment, and management of business performance. This is consistent with several empirical studies to find out how third parties, auditors and businesses view this issue. The findings are, however, inconclusive, indicating that the impact of Management Advisory Services on perceptions of audit independence is complicated and other considerations, such as cultural variations of topics, may also be an important factor in the manner Management Advisory Services are perceived in the context of auditor independence. Shockley believed that collateral services created a too close connection of work between the auditor and the client and that audit independence was negatively affected by the provision of management advisory services.

2.1.9 Audit Committees

An audit committee is a selected number of board members of a company whose responsibilities include helping auditors remain management-independent. There is a lot of assistance to suggest for one reason that there are a favorable connection between audit boards and auditors' autonomy.

According to SOX section 301, the audit committee carries out its responsibility over the financial reporting process by:

I. appointing, overseeing and compensating the independent and compensating the independent auditor;

II. establishing procedures for handling complaints about accounting, auditing and internal control; and

III. establishing procedures for the submission of concerns about questionable accounting and auditing matters.

2.1.10 Components of independence.

Arens, Elder and Beasley (2012) explain that the auditor's independence is split into two parts:

Independence in mind ' and ' independence in appearance'. Independence of mind reflects the state of mind of the auditor allowing unbiased performance of the audit. Independence of mind represents a longstanding need for employees to be in reality autonomous. Independence in appearance is the result of this independence's interpretations by others. If auditors are actually autonomous but customers think they are client proponents, most of the audit function's value will be squandered.

2.1.11 Dimensions of Auditors' Independence.

Saputra (2015) explains that the independence of auditors is comprised of three dimensions with the following declaration: Three dimensions of independence have been recognized as follows:

1. **Programming Independence**: Free of control or undue influence in the choice and implementation of audit methods and processes. This requires the auditor to be free to develop his own program within the overall boundaries of the engagement, both as to the steps to be included and the amount of work to be performed.

2. **Investigative Independence:** Freedom of control or excessive impact in the choice of areas, activities, personal relationships and policy management. This needs no legal source of data to be close to the auditor.
3. **Reporting Independence:** Free of control or undue influence in the statement of facts disclosed as a result of the examination or in the expression of recommendations or opinions.

2.1.12 Indicators to Assess Auditors' Independence

Programming independence indicators:

a. Freedom from managerial interference or friction intended to eliminate, specify, or modify any portion of the audit
b. Freedom from interference with or an uncooperative attitude respecting the application selected procedures.
c. Freedom from any outside attempts to subject the audit work to review other than that provided for in the audit process.

Investigative independence indicators:

a. Direct and free access to all company books, records, officers and employee, and other source of information with respect to business activities, obligations, and resources.
b. Active cooperation from managerial personnel during the course of the auditor's examination.

c. Freedom from any managerial attempt to assign or specify the activities to be examined or to establish the acceptability of evidential matter
d. Freedom from personal interests or relationships leading to exclusion from or limitation of the examination of any activity, record, or person that otherwise would have been included in the audit

Reporting independence indicators:

a. Freedom from any feeling of loyalty or obligation to modify the impact of reported facts on any party
b. Avoidance of the practice of excluding significant matters from the formal report on favor of their inclusion in an informal report of any kind.
c. Avoidance of the use of ambiguous language intentionally or involuntarily in declaring and interpreting facts, views and suggestions.
d. Freedom from any attempt to overrule the auditor‘s judgment as to appropriate content of the audit report either factual matter or his opinion.

2.1.13 Restrictions on Independence

When auditors of a company are in conflict with the directors it is important this conflict can be resolved without the auditors losing any of their independence. This can prove to be difficult as an auditor earns a fee from providing a service, which is how he earns a living. This fee is paid by the board of directors leaving them with the power in the relationship. Therein lies the dilemma, how can the audit team please the directors without losing any of their independence but keep the directors happy to ensure maintain repeat business. The problem regarding independence stems from two main sources the auditors' relationship with the company and the nature of the accountancy profession. An auditor will benefit from the fees paid. Therefore, it is automatic that he wants nothing to put this revenue at risk. This dependence on customer can influence an auditor's independence. If the client revenue is seen by the auditor as more significant than their shareholder responsibility, then the audit may not be conducted in the interest of the shareholder. (Olagunju, 2011).

The larger the fee income the more likely the auditor is to shirk his responsibilities and perform the audit without independence. This could lead to the implementation of figures and exploitation of accounting standards. By performing the audit without independence the shareholders' may get misled, as the auditor is now reliant on the directors. To encourage auditors to maintain their independence they must be protected from the director's board. If they were able to challenge statements and figures without the risk of losing their job they would be more likely to work with complete independence (Khas, 2012).

Ultimately, as long as the client determines audit appointments and fees an auditor will never be able to have complete economic independence. In most cases it is the directors that negotiate an audit contract with the auditors. This may lead to difficulties, auditing companies occasionally provide managers with relatively low rates to guarantee repetition or fresh customers. By doing so the firm may not be able to perform the audit fully as they do not have enough team that would be reporting without all evidence required which will affect the quality of the report. This would bring into question their independence.

It is common for the audit firm of a company to provide extra services as well as performing the audit. Helping a company reduce its tax charges or acting as a consultant for the implementation of a new computer system, are common examples. Having this additional working relationship with the client would result in questions being asked of the independence of the audit firm. If non-audit fees are substantial in retaliation to audit fees, suspicions will arise that auditing standards may be compromised. The firm would no longer be unbiased, as it would want the company to perform well so it can continue to earn the addition fee for their consultancy (Greco, 2012).

2.2 Theoretical review

2.2.1 Agency theory

One of the most widely used management theories is the theory of agencies (Wasserman, 2006; Madison, 2014). Widely ranging, the agency theories concerns the connection between two sides, the principal (owner) and the agent (Madison 2014).The theory indicates that agents will behave themselves in an interesting way, given the opportunity, conduct that may conflict with the interests of the principal (Rodriguez & Mejia, 2012).As such, the principals will implement structural processes monitoring the officer to reduce opportunistic behavior and better align the interests of the sides.

The agency theory is concerned with resolving two problems that can occur in agency relationship. The first agency problems arises when the desires or goals of the principal and agent conflict and there is asymmetry, then it will be difficult or expensive for the principal to verify what the agent is really doing. The problem here is that the principal cannot verify if the agent had behaved properly. The second problem is the problem of risk sharing that arises when the principal and the agent have different attitudes toward risk (Jensen, 2013). In effort to align the interest of management and shareholders, certain mechanisms of accountability are adopted such as audit committee, internal audit, ethical tone and risk management which are components of an effective internal control which provides assurance of the financial reporting quality. Effective corporate governance dominance research in accounting and finance by agency theory has engendered shareholders centric definitions of corporate governance for example, the process of supervision and control which is intended to ensure the company's management act's in accordance with interests of shareholders (Brennan & Solomon, 2014). This shareholder-driven approach is expressed in the document and codes of practice on corporate management such as the Cadbury report (2012). The perspectives of these documents were from the point of protecting and enhancing shareholders wealth. Internal audit which important tool of accountability which tries to align the interest of the principal and the agent.

The agency problem between stockholders and manager gives rise to the hiring of an auditor who provides independent assurance to corporate stakeholders, and auditing also play a major part in enforcing and protecting stakeholders' right by detecting misstatements and expropriation by managements. For auditors to successfully discharge this responsibility, they need to be independent. Therefore, the higher the auditor's independence, the more they detect managements manipulations in the financial statements (Jenson, 2013).

This theory is applicable to this study simply because auditor independence is one of many mechanisms used in business to address the agency problem by reducing agency costs that affects the overall performance of the relationship as well as the benefits of the principal. The auditor improves the provision of extra information to the principal of additional information to the principal (shareholder) about the behavior of the agent (management) reduces information asymmetry and lowers investor risk access low revenue.

2.2.2 Stewardship Theory

Stewardship theory is a relatively new concept (Karns, 2011) and undertakes that the manager is a steward of the business with actions and purposes consistent with those of the owners. The theory indicates that the strength of the company is to help mankind by serving clients, staff and the community. (Karns, 2011) at the center of the theory's foundation is the concept that the business is here to serve rather than produce a profit. However, to be able to serve, the firm must be able to sustain itself economically and this theory promotes efficient use of resources through working with stakeholders. It views profits as necessary and an important funding mechanism to the primary objective of meeting the service-oriented mission.

Stewardship theory is also about the employment relationship between two parties, the principal (owner) and the steward (manager). It examines the relationship from a behavioral and a structural perspective. Theory says stewards are pro-social in their conduct, behavior which is aimed at the interest of the principal and thus the organization (Madison, 2014). Maximum firm performance, such as sales growth or profitability, is the desired outcome of a stewardship perspective. Theory suggests this outcome is achieved when both the principal and the manager in the employment relationship select to behave as stewards (Madison, 2014). At the heart of stewardship theory is the assumption that the principal-steward relationship is based on a choice. When both parties choose to behave as stewards and place the principal's interest first, theory suggests a positive impact on performance because both parties are working toward the same goal (Madison, 2014).

The choice of stewardship behavior is impacted by both psychological and situational factors (Vallejo, 2009). Psychological factors such as intrinsic motivation, high identification, and personal power can steer the behavioral choice to stewardship goal (Madison, 2014). Intrinsic motivation exists within individuals and provides satisfaction in and of itself goal (Madison, 2014); it is a psychological attribute of stewardship theory because steward managers are motivated by intangible, higher order rewards goal (Madison, 2014). Individuals who have high levels of identification with their organization are more likely to choose stewardship because they feel strong sense of membership with their organization (Vallejo, 2009) .Stewardship theory applies a personal power perspective, describing power based on interpersonal relationships that develop over time. Which in turn influence and empower steward managers. These psychological factors facilitate the choice of stewardship, which ultimately have a positive impact on firm performance.

2.2.3 Legitimacy theory

According to Laffont & Martimort (2010), legitimacy theory assert that organizations continually seek to ensure that they are perceived as operating within the bounds and norms of their respective societies, that is, they attempt to ensure that their activities are perceived by outside parties as being ‘legitimate’.

Legitimacy theory relies upon the conception of a ‘social contract’ between the organization and the society in which it operates. “The concept is used to represent the multitude of implicit and explicit expectations that society has about in which way the organization should conduct its operations” (Deegan and Unerman, 2006).

Mutua, (2012) assert that legitimacy from society's perspective and the right to operate goes hand in hand. Society allows the organization to continue operations to the extent that it generally meets their expectations. Legitimacy theory predicts that management will adopt particular strategies to assure the society that the organization is complying with the society's values and norms, for example the disclosure of information in annual reports (Bota& Palfi, 2014).

Legitimacy theory is one example of many theoretical perspectives, adopted in explaining and predicting accounting practice. Even though this research is about internal audit services and financial management, it is worth considering the legitimacy theory (Deegan and Unerman, 2012). The essence is about information disclosure, accountability, value relevance and the information needs of users. Legitimacy theory could also be signaled as an explanation of the need for an independent auditor opinion on the truth and on the fairness of the company's financial reporting.

2.3. Empirical Review

2.3.1 Auditors' independence between auditors' bank-loan officers and financial analysts

Al-Ajmi (2011) investigated the perceptions of auditor independence between auditors, bank- loan officers, and financial analysts in Bahrain using questionnaires distributes to 450 respondents. Findings reveals that economic reliance of auditors on their clients and the provisions of non-audit service, competition, and long tenure of audit services are considered the most important independence-threatening factors.

2.3.2 Relationship between mandatory audit rotation and audit quality

Onwuchekwa, Erah and Izedonmi (2012) determined the relationship between mandatory audit rotation and audit quality. The information gathered were distributed to investors, lecturers and auditors in southern Nigeria by means of questionnaires. The data was analyzed using percentages while the specified model was estimated using binary logistic regression results showed that there exist a negative relationship between mandatory audit rotation and audit quality in relation to auditor independence.

2.3.3 Threats to auditors' independence, relationship between non-audit services and auditor independence.

Adeyemi and Olowookere (2012) identifies the threats to auditors' independence and also examined the relationship between audit non-audit services and auditor independence. Data were gathered from five sectors of Nigerian quoted companies: Banking, brewery, Chemical and Paints, Conglomerates, and Health through a well-structured questionnaire. The non-parametric statistical tests were used to draw conclusions in Kruskal- Wallis Test and Mann-Whitney U Tests. The findings indicated that the provision of non-audit services significantly affects investors' independence, and there is high correlation between auditors' independence and non-audit services in Nigeria. The study concluded that auditors should continually assess their standing in the community in order to maintain public confidence.

2.3.4 Factors that affect the audit quality

Carolina (2013) investigated the factors that affect the audit quality in North Jakarta Indonesia. Data were analyzed using explanatory survey from 36 public accounting firms. The study employed multiple regressions to analyse data. The result revealed that auditor independence and audit tenure have a significant impact on audit quality.

2.3.5 Determinants of audit independence as perceived by practicing auditors, and non-auditor executives in Nigeria

Akpom and Dimkpah (2013) investigated the determinants of audit independence as perceived by practicing auditors, and non-auditor executives in Nigeria. The study employed a survey method comprising a sample of 79 auditors and 127 non-auditor professionals. Result showed differences in the degree of perception of respondents about the effects of provision of non-audit services, audit firm and client company size, auditor regulation, audit/ client relations, auditor tenure, and audit market competition as they affect auditor independence.

2.3.6 Audit quality and Auditors independence in Nigeria.

Tobi, Osasere and Emmanuel (2016) examines the effect of auditors' independence on audit quality of selected deposit money banks in Nigeria. The Purposive sampling technique was used to select sample size of seven (7) banks from the twenty (20) listed Deposit Money Banks in Nigeria as at the time of the research. The study employed the secondary source of data collection from annual reports. The techniques adopted for this study consist of descriptive statistics, correlation and ordinary least square (OLS) regression. The research showed that the audit fee, the roatation of an audit company and audit quality are positively linked. There are also adverse link between tenure and quality of the audit company. The research showed that the audit fee, the rotation of an audit quality are positively linked. There are also adverse links between tenure and quality of the audit company.

2.3.7 Relationship between audit quality and auditors' independence in Nigeria.

An empirical evaluation done by Enofe, Ngbame and Ediae (2013) evaluates the relationship between audit quality and auditors independence in Nigeria using Nigerian quoted companies as a reference point.in pursuance of this study, a cross sectional analysis of firms listed on the Nigerian Stock Exchange was carried out. The data collected for the independent and dependent variables were analyzed using the ordinary least square (OLS) regression analysis. The result of this study indicated that as auditors' independence increase, the quality of the audit also improves and as the independence of the board and the ownership structure increases, the quality of audit reduces. The study recommends that auditors should strive for independence in other to ensure quality audits.

2.3.8 The impact of audit independence on financial reporting

Adeyemi and Okpala (2011) carried out a study to examine the impact of audit independence on financial reporting in Nigeria. Both primary and secondary data were used in carrying out this research. This study captured the opinions of respondents including auditors, shareholders, brokers, analysis, regulators, management, academics and other users of financial information. The primary data were gotten from three hundred and fifty returned and usable copies of questionnaire, while the secondary data were generated from the financial statements of forty annual reports of companies quoted on the Nigerian Stock Exchange. The study found a significant and positive relationship between audit quality and the quality of financial reporting.

2.3.9 Determinants of audit quality

Ndubuisi and Ezechukwu (2017) examined the determinants of audit quality with a focus on selected deposit money banks listed on the Nigerian Stock Exchange from 2012-2015.the *ex-post facto* research design was employed in this study by obtaining secondary data from fact books, annual reports and account of selected banks under study. The relevant data were subjected to statistical analysis using Pearson coefficient of correlation, Ordinary Least Square (OLS) and Granger causality test with the aid of E-view 9.0. The research showed that the connection between audit charges, audit tenure, the size of the audit company and audit performance is positive and statistically importnant. It was empirically also confirmed that the audit charges, audit tenure and size of the audit company relate to the audit quality of 5% of importance of banks in the Nigerian stock Exchange. The study recommends among others that auditor-client relationship should not exceed 3 years, because the auditor may develop close relationship with the client and become more likely to act in favour of management, resulting in reduced objectivity and audit quality.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter describes the research methods of the study. Research methodology is the procedural plan that is adopted by the researcher to validly, objectively, economically and accurately answer the research questions (Ngechu, 2004). It is detailed explanation of the procedures and techniques that was used while collecting and analyzing data. This section of the study therefore describes the research design, study population, sample and sampling technique, research instrument, method of data collection, pilot study, validity and reliability, method of data analysis test as well as model specification.

3.1 Research Design

The triangulation research design will be used for this study. Turner, Cardinal and Burton, (2017) defined triangulation as the use of multiple, different approaches to generate to generate better understanding of a given theory or phenomenon. For this study, the survey research design and the *ex-post facto* research design will be adopted. Survey research design is considered appropriate for this study because, the study involved the collection of primary data through the use of well-structured questionnaires. The *ex-post facto* research design is also appropriate for this study because it involves the collection of secondary data through journals, annual reports etc.

3.2 Population of the study

Population of a study is described by Odoh and Chinedum (2014) as the point of focus from which a generalization is made regarding the research findings. The study concentrated on Banking Sector particularly the deposit money banks in Lagos state, Nigeria. According to the validation of the Central Bank of Nigeria and National Bureau of statistics, there are 21 deposit money banks in Nigeria as at 31st December, 2018. and these banks are subdivided into 9 commercial Banking Licence with international authorization, 10 Commercial Banking Licence with National Authorization and 2 Commercial Banking Licence with Regional Authorization.

3.3 Sampling Technique

The stratified sampling technique will be adopted for this study. Stratified sampling helps to focus on certain characteristics of a population that are of importance to the researcher. Twenty respondents will be selected from each nine deposit money banks which makes total respondents to be 180.

3.4 Sample Size Determination

According to Ezejuele and Ogwo (1990), a minimum of 10% of the population is considered appropriate for sampling. There are 21 deposit money banks in Nigeria and these banks are subdivided into 9 commercial Banking License with international authorization,10 Commercial Banking License with National Authorization and 2 Commercial Banking License with Regional Authorization. For this study, 9 banks have been selected based on the criteria of having Banking License with International Authorization. These 9 banks form 42.86% of the total number of deposit money banks in Nigeria which is 21. Due to the limitation of time and fund, 20 staff will be selected strategically from each bank making a sample size of 180 (20×9).

3.5 Sampling Frame

The sampling frame for this study consists of those banks that are licensed with international Authorization and these banks are listed below:

Table 3.1: List of Commercial Banking with International License Authorization

Commercial Banking License with International Authorization as at September 30, 2018.
1. Access Bank PLC
2. Diamond Bank PLC
3. Fidelity Bank PLC
4. First City Monument Bank PLC
5. First Bank Nigeria Limited
6. Guaranty Trust Bank PLC
7. Union Bank of Nigeria
8. United Bank of Africa PLC
9. Zenith Bank PLC

The above listed banks represent 42.86% of the total number of deposit money banks in Nigeria.

3.6 Method of Data Collection

The method used in collecting data for this study is the primary and secondary sources of collection. The primary sources are questionnaires; the secondary sources of journals, books, newspapers, annual reports and magazines. Secondary data sources are mainly used to supplement primary data to enable researcher get more information concerning the topic.

3.7 Research instrument

A structured questionnaire was used for the study. A questionnaire is a document comprising a set of issues on how to collect data about a study inquiry from participants. (Agbonifoh & Yomere, 2006). The questionnaire used in obtaining data in this study is the Likert-type 6 scale which enables the respondents to respond to the research question as follows: 6 = strongly agree, 5 = agree, 4 =fairly agree, 3 = fairly disagree, 2 = disagree and 1= strongly disagree. This enable the researcher to obtain reliable information which would be used to test the hypothesis formulated in the study. The questionnaires were structured into two categories; category A and B. While A will be used to capture information relating to the respondent's demographic data such as age, gender, qualifications etc. B will be used to capture information relating to auditor's independence and audit quality

3.8 Pilot study

A pre-test of the questionnaire was conducted to evaluate the relevance and proper understanding of the research questions. The pilot study is considered necessary in order to have a foresight of the reactions of the respondents and to ascertain the reliability of the questionnaire when used in the population of the study. In order to attain the objective of a pilot study, the questionnaires was checked by the supervisor and also experts in the field of the research topic.

3.9 Validity of Research Instrument

The research instrument was subjected to content validity. Content validity is the extent to which the test adequately covers the areas, syllabus or same segment designed to be tested (Adeyemi & Okpala, 2011). Validity tests are used to test goodness of measures. The face and content validity of the research instrument was validated by experts who are Professionals of the Institute of Chartered Accountants of Nigeria and also lecturers of Mountain Top University. Their useful recommendations were incorporated into the final draft of the questionnaire. The various recommendations helped in reducing the length of the survey.

3.10 Reliability Test of Research Instrument

The reliability of this study was done using the Cronbach's Alpha in SPSS. The reliability of a measure indicates the stability and consistency with which the instrument is measuring the concept and helps to assess the goodness of a measure.

3.11 Method of Data Analysis

The data collected were analyzed using Statistical Package for Social Sciences. The findings were reported using Descriptive and inferential statistical methods. The descriptive statistics was used to analyze the respondents' response while the inferential was used to report the result of the hypotheses tested in the study. The population of the respondents was reported in form of frequency distribution table. The research questions and hypotheses were reported in tables after being analyzed using Pearson product moment correlation. The Pearson "r" shows the relationship between the variables; and the strength of the relationship as well. The Pearson r-value was use to answer the research questions. The hypotheses were tested with the p-value gotten from the Pearson correlation. The decision rule used was that the null hypotheses will be accepted if the p-value is less than 0.05 level of significance and will be rejected if the p-value is higher than 0.05 level of significance.

3.12 Model specification

$AQ = a0 + \beta_1 AF + \beta_2 AT + \beta_3 CF + \beta_4 LEV + \beta_5 COS + \varepsilon$

Where:

AQ= f (AF, AT, CF)

AQ= Audit quality

AI= Auditor independence

AF= Audit fees

AT= Audit tenure

CF= Credit facilities

Control variables

LEV= Leverage

COS= Company Size

β = Coefficient of independent variables

ε = error term

a0 = Intercept

Table 3.2: Measurement of Variables

S/N	Variables	Definitions	Type	Measurement
1	AQ	Audit quality	Dependent	"1" if audited by Big 4 and "0" if otherwise
2	AF	Audit fee	Independent	Natural Log of Audit Fees paid by the company
3	AT	Audit tenure	Independent	If length of client relationship is 3 years and above- "1" and if otherwise,"0"
4.	CF	Credit facilities	Independent	Collection of loan and other credit facilities from the bank. If true, "1" and if otherwise, "0".
95	LEV	Leverage	Control	Total debt/ Equity
6	COS	Company size	Control	Natural log of company total assets.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION OF FINDINGS AND DISCUSSION

4.0 Introduction

This chapter presents data analysis, presentation of results and the discussion of findings. The assessment of the respondents' demographic information was initially provided using frequency distribution table followed by the analysis and discussion of each research questions and hypotheses.

4.1 Demography of respondents

Table 4.1: Gender

Items	**Frequency**	**Percent (%)**
Male	87	52.1
Female	80	47.9
Total	**167**	**100.0**

Table 4.1 presented that 87 (52.1%) of the respondents were males while 80 (47.9%) of the respondents were females. This means that there were more male gender participants than female participants.

Table 4.2: Age

Items	**Frequency**	**Percent (%)**
30 years and below	97	58.1
31- 40 years	54	32.3
41 years and above	16	9.6
Total	**167**	**100.0**

Table 4.2 shows the age distribution of the respondents; 97 (58.1%) were 30 years and below, 54 (32.3%) were between 31-40 years while 16 (9.6%) were from 41 years and above. This means that majority of the participants were not older than 30 years of age.

Table 4.3: Highest Academic Qualification

Items	**Frequency**	**Percent (%)**
GCE/WAEC	6	3.6
OND/NCE	21	12.6
HND/BSC	85	50.9
MBA/MSC	46	27.5
Others	9	5.4
Total	**167**	**100.0**

From table 4.3, most of the respondents indicated that they have HND/B.Sc. as their supreme qualification with 85 (50.9%) representing the population in that category; 46 (27.5%) of them have MBA/M.Sc. as their highest academic qualification and 21 (12.6%) have OND/NCE as their highest qualification. This data shows that more than half of the respondents have qualifications that put them in important positions in the banking sector so they are able to give objective responses to questions and statements as pertaining to audit processes. This means that most of the participants.

Table 4.4: Position

Items	Frequency	Percent (%)
Junior staff	89	53.3
Senior staff	48	28.7
Management staff	30	18.0
Total	**167**	**100.0**

According to table 4.4, the survey was able to get half of the sampled respondents occupying senior and management positions involved in the study. 48 (28.7%) were senior staff and 30 (18.0%) were management staff; a figure that suggests that the survey was able to get top officials in the commercial banks to participate in data collection. The remaining part of the sample 89 (53.3%) were junior staff.

Table 4.5: Year of Service

Items	Frequency	Percent (%)
Below 5 years	76	45.5
5-10 years	57	34.1
11-15 years	20	12.0
Above 15 years	14	8.4
Total	**167**	**100.0**

On year of service, table 4.5 presented that altogether, 91 (54.5%) of the whole sampled respondents have years of experience of 5 years and above while 76 (45.5%) have years of experience of below 5 years. The results mean that most of the respondents are experienced enough to give objective responses about auditing.

4.2 Responses of Respondents

Table 4.6: Audit fee is symmetric with audit quality

Items	Frequency	Percent (%)
SD	2	1.2
D	8	4.8
FD	3	1.8
FA	25	15.0
A	76	45.5
SA	53	31.7
Total	**167**	**100.0**

From the table above, a large percentage agreed that audit fee is symmetric to audit quality with 129 of them attesting that high audit fee leads to high audit quality

Table 4.7: Audit fees are based on auditor's experience rather than audit quality

Items	Frequency	Percent (%)
SD	4	2.4
D	24	14.4
FD	2	1.2
FA	29	17.4
A	59	35.3
SA	49	29.3
Total	**167**	**100.0**

Table 4.7 presented that 59 and 49 of the respondents agreed and strongly agreed respectively that audit fees are based on auditor’s experience rather than audit quality. This means that most respondents believe that the range of audit fee paid is commensurate to the auditor’s experience.

Table 4.8: Audit fees is a direct function of risk associated with auditing a firm

Items	**Frequency**	**Percent (%)**
SD	7	4.2
D	10	6.0
FD	4	2.4
FA	25	15.0
A	77	46.1
SA	44	26.3
Total	**167**	**100.0**

The table above explains that the respondents agreed that the amount of audit fees paid is directly associated with the risk being taken to bring in the services of the auditing firm.

Table 4.9: Auditors charge higher audit fees on the basis of higher audit quality

Items	**Frequency**	**Percent (%)**
SD	7	4.2
D	9	5.4
FD	3	1.8
FA	31	18.6
A	75	44.9
SA	42	25.1
Total	**167**	**100.0**

The table shows from the responses of the respondents that they believe auditors are likely to charge higher based on the quality they bring in auditing the financials of a company.

Table 4.10: Long audit tenure is asymmetric to audit quality

Items	Frequency	Percent (%)
SD	6	3.6
D	20	12.0
FD	4	2.4
FA	33	19.8
A	53	31.7
SA	51	30.5
Total	**167**	**100.0**

Table 4.10 shows that 51 of the respondents strongly agreed that long tenure is asymmetric to audit quality. 53 of them agreed to this and 33 of them fairly agreed to this. This means that most of the participants claimed that a long audit tenure is does not help audit quality

Table 4.11: Long audit tenure encourages auditors in contravening standards and rules

Items	Frequency	Percent (%)
SD	3	1.8
D	17	10.2
FD	1	0.6
FA	19	11.4
A	81	48.5
SA	46	27.5
Total	**167**	**100.0**

Table 4.11 states that 81 of the respondents consented that long audit tenure encourages auditors in contravening standards and rules. 46 of them strongly agreed and 19 fairly agreed; therefore, most of them believe that long audit tenure would influence the auditor in bending standards and rules of auditing.

Table 4.12: Long audit tenure provides an auditor the privilege to provide an unqualified opinion (a report that does not show a true and fair view)

Items	**Frequency**	**Percent (%)**
SD	6	3.6
D	17	10.2
FD	2	1.2
FA	23	13.8
A	75	44.9
SA	44	26.3
Total	**167**	**100.0**

Table 4.12 shows that most of the respondents agreed that long audit tenure can make auditors provide an unqualified report with 44 agreeing strongly to this, 75 of them agreed and 23 fairly agreed.

Table 4.13: Long association with client lead to impairment of audit quality

Items	Frequency	Percent (%)
SD	13	7.8
D	12	7.2
FD	4	2.4
FA	21	12.6
A	69	41.3
SA	48	28.7
Total	**167**	**100.0**

From the table above, a large number of the respondents agreed to the statement that long association with client lead to impairment of audit quality. Therefore, we can infer their responses that long association does not help in attaining high audit quality.

Table 4.14: Loan collection prevent auditors from expressing a true and fair view of a company's financial statement

Items	Frequency	Percent (%)
SD	5	3.0
D	21	12.6
FD	-----	-----
FA	21	12.6
A	71	42.5
SA	49	29.3
Total	**167**	**100.0**

From the responses above, it can be concluded that the respondents feel that loan collection by the auditors can be a factor that prevents rendering of qualitative audit services to the client.

Table 4.15: Collection of loans from audit clients prevent auditors from providing unqualified report (a report that shows a true and fair view)

Items	**Frequency**	**Percent (%)**
SD	6	3.6
D	18	10.8
FD	5	3.0
FA	25	15.0
A	63	37.7
SA	50	29.9
Total	**167**	**100.0**

Table 4.15 shows that most of the respondents agreed that collection of loans can make auditors provide an unqualified report with 50 agreeing strongly to this, 63 of them agreed and 25 fairly agreed.

Table 4.16: Collection of loan from client can lead to impairment of audit quality

Items	Frequency	Percent (%)
SD	2	1.2
D	16	9.6
FD	3	1.8
FA	25	15.0
A	74	44.3
SA	47	28.1
Total	**167**	**100.0**

From the table above, a large number of the respondents agreed to the statement that collection of loan from client lead to impairment of audit quality. Therefore, we can infer from their responses that loan collection from client does not help in attaining high audit quality.

Table 4.17: Collection of loan prevent auditors from being objective in carrying out the audit assignment

Items	Frequency	Percent (%)
SD	6	3.6
D	15	9.0
FD	----	----
FA	27	16.2
A	69	41.3
SA	50	29.9
Total	**167**	**100.0**

Table 4.17 states that 69 of the respondents consented that collection of loan prevent auditors from being objective in carrying out the audit assignment. 50 of them strongly agreed and 27 fairly agreed; therefore, most of them believe that long audit tenure would influence the auditor in bending standards and rules of auditing.

4.3 Test of Hypotheses

4.3.1 Ho_1: There is no significant relationship between audit fees and audit quality.

Table 4.18 Pearson product moment correlation analysis of audit fees and audit quality.

Variable	Mean	SD	N	r	P
Audit fees	4.73	0.87	167		
				0.14	0.04
Audit quality	1.68	0.47	167		

Table 4.18 shows Pearson Product Moment Correlation to determine the relationship between audit fees and audit quality. The result shows r = 0.14 and p-value of 0.04. Since $p < 0.05$ then Ho_1 is hereby rejected. This means that there is a significant relationship between audit fees and audit quality.

4.3.2 Ho_2: There is no significant relationship between audit firm tenure and audit quality

Table 4.19 Pearson product moment correlation analysis of audit firm tenure and audit quality

Variable	Mean	SD	N	r	p
Audit firm tenure	4.64	0.96	167		
				-0.21	0.00
Audit quality	1.68	0.47	167		

Table 4.19 shows Pearson Product Moment Correlation to determine the relationship between audit firm tenure and audit quality. The result shows r = -0.21 and p- value of 0.00. Since $p < 0.05$ then Ho_2 is hereby rejected. This means that there is a significant relationship between audit firm tenure and audit quality.

4.3.3 Ho_3: There is no significant relationship between collection of loans and other credit facilities and audit quality.

Table 4.20 Pearson product moment correlation analysis of collection of loans and other credit facilities and audit quality.

Variable	Mean	SD	N	r	p
Collection of loans and credit	4.69	1.78	167		
				-0.13	0.05
Audit quality	1.68	0.47	167		

Table 4.20 shows Pearson Product Moment Correlation to determine the relationship between collection loans and other credit facilities and audit quality. The result shows r = -0.13 and p- value

of 0.05. Since p = 0.05 then Ho_3 is hereby rejected. This means that there is a significant relationship between collection of loans and other credit facilities and audit quality.

4.4 Discussion of Findings

4.4.1 Relationship between audit fees and audit quality

It was found out from the data in table 4.3 that there was a positive significant relationship between audit fees and audit quality. This confirms the work of Ndubuisi and Ezechukwu (2017) in empirical proof that auditing charges are related to audit performance statisically. It also aligns with the findings of Adeyemi and Okpala (2011) where they examined the impact of audit independence on financial reporting in Nigeria. They found out that audit fees as an indicator of audit independence had a significant and positive relationship with audit quality. The positive relationship that existed between the variables means that audit fees aids audit quality. According to the result, a higher audit fee means a higher chance of having a quality auditing process of the financials of the company. The statistical significance shows that the result was not by chance but that it is statistically true.

4.4.2 Relationship between Audit Firm Tenure and Audit Quality

It was found out from the data in table 4.4 that there was a negative relationship between audit firm tenure and audit quality. The result also proved significant which shows that the result reflected the view of the respondents and was not by chance that audit firm tenure has a negative relationship with audit quality. This outcome matches the findings of Tobi, Osasere and Emmanuel (2016) where they found out that negative relationship exists between audit firm tenure and audit quality The result did not agree with the findings of Carolina (2013) and Ndubuisi and Ezechukwu (2017) where factors that affects audit quality was investigated and found out that audit tenure has a positive significant impact on audit quality audit quality should usually lead in a partnership with an audit company because it would be assumed that the auditors would be familiar with proceedings and dealings with the company client. The negative relationship between audit firm tenure and audit quality from the result shows that a long tenure with an audit firm does not reflect positively on audit quality. This can be as a result of familiarity with the audit firm; a connection which can lead to influence of the auditors' actions and cause them to bend some rules that would overall affect the outcome of audit process. According to Ndubuisi and Ezechukwu (2017) in their study, they recommended that auditor-client relationship should not exceed 3 years, because the auditor may develop close relationship with the client and become more likely to act in favour of management, resulting in reduced objectivity and audit quality. This statistical result reflects the responses of the respondents to the statements in the data instrument.

4.4.3 Relationship between collection of loan and other credit facilities and audit quality

It was found out from the data in table 4.5 that there was a negative significant relationship between collection of loan and credit facilities and audit quality. The negative relationship implies that collection of loan and credit by the auditor influences audit quality but the resultant influence does not aid audit quality. The fact that the relationship is significant shows that statistically, it is valid and not presented a slim chance of if happening. Significance of a relationship tells us that the relationship; either positive or negative is strongly supported by the participants of the study. This corroborates the findings of Al-Ajmi (2011) that economic reliance of auditors on their clients and the provisions of non-audit services are considered the most important threatening factors to audit quality. The result also conforms to the findings of Adeyemi and Olowookere (2012) where they indicated that the provision of non-audit services significantly affects investors' independence.

CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter contains the summary of the research project which includes the purpose and the method obtaining the results as presented in the study. It contains that conclusion of the findings of the study stated in the findings of the statistical results. Lastly, recommendations were made in accordance to the summary and conclusion of the study.

5.1 Summary

The study raised a concerns about auditing problems in commercial banks stating that auditor's independence in producing a qualitative audit results might have been compromised. The study sought to examine the effect of auditors' independence on audit quality in the Nigerian banking sector. Specifically, the study investigated the relationship between audit fees, audit firm tenure and collection of loan and credit facilities and audit quality. The study adopted the triangulation research design with specific adoption of survey research design and the ex-post facto. The population was all the banks with commercial banking license and the stratified sampling technique was employed. A sample size of 180 was chosen to participate in the study but only 167 participated in the study. Primary and secondary data method of collecting data was employed during data collection and data was analyzed and presented in the form of frequency distribution table. The questions were answered and the hypotheses were tested by Pearson product moment correlation. From the results, audit fees had a positive and significant relationship with audit quality; audit firm tenure had a negative significant relationship with audit quality; collection of loan and other credit facilities has a negative significant relationship with audit quality.

5.2 Conclusion

From the findings of the research work, audit fees had a positive significant relationship with audit quality suggesting that paying high audit fees to the auditors would result in high audit quality and that high fees means a large audit firm is being consulted as the independent auditor for the audit process which overall would lead to high audit quality. Audit firm tenure had a negative relationship with audit quality which proved significant stating that a long relationship with an audit firm could be detrimental to the audit quality because of the familiarity that could ensue between the auditors and management of the company that could result in influence in the objectivity of the auditors auditing process. Collection of loan and other credit facilities had a negative and significant relationship with audit quality meaning paying auditors for non-audit services could influence the auditors' objectivity when it comes to audit of the financial statement.

5.3 Recommendations

1. If it will take a client to pay high fees to get an objective and competent auditing firm t audit their financials for the sake of audit quality then every company needs to make such sacrifice. The audit quality of a firm cannot be compromised as it is the financial statement that shows how the company fares. Therefore, the truly reflection of the company needs to be seen so as to know the present state of the company.

2. If properly handled, long relationship between the audit firm and client is a plus and boost to audit process as it makes audit relaxing and more result oriented but findings in the study and other research have shown that long audit tenure could harmful to audit quality, therefore, it is recommended that auditors should be rotated at least two years so that the threat of familiarity between the auditor and the management of the company does not become a challenge to audit quality.

3. Auditors should only be paid for services rendered i.e. audit services and not non-audit services so as to keep up objectivity of the audit process.

5.4 Area for further studies

The study only focused on effects of audit independence on audit quality in the Nigerian banking sector. Studies can be carried out on effect of audit independence on audit quality in other sector such as the Telecommunication Company or Manufacturing Company.

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APPENDICES

APPENDIX 1: Questionnaire

Effect of auditors' independence on audit quality in the Nigerian Banking Sector.

Dear Respondent,

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 requirement for the Bachelor of Science degree. I will appreciate if the questionnaire is completed to the best of your knowledge with utmost sincerity to achieve credible results. The information provided will only be used for academic purpose and will be treated with utmost confidentiality.

INSTRUCTIONS

Please read the questions carefully and tick or mark the appropriate answers in the box provided.

SECTION A: DEMOGRAPHIC DATA

1. Gender: (i) Male [ ] (ii) Female [ ]
2. Age: 30 years and below [ ] (ii) 31-40 years [ ] (iii) 41 years and above [ ]
3. Highest Academic Qualification: (i) GCE/WASCE [ ] (ii) OND/NCE [ ] (iii) HND/B.Sc. [ ] (iv) MBA/M.Sc. [ ] (v) Others, (please, specify)………………………..........
4. Position: (i) Senior staff [ ] (ii) Junior staff [ ] (iii) Management staff [ ]
5. Years of service: (i) below 5 years[ ] (ii) 5-10 years [ ] (iii) 11-15 Years [ ] (iv) Above 15 years [ ]

SECTION B: RESEARCH QUESTIONS

Pleases respond to the following statements by indicating the extent to which you agree or disagree with them.

KEY: SD=1 for strongly Disagree; D=2 for Disagree; N=3 for Neutral; A=4 for Agree; SA strongly Agree.

	Audit fees and audit quality	**SD 1**	**D 2**	**F.D 3**	**F.A 4**	**A 5**	**SA 6**
1.	Audit fee is symmetric with audit quality.						
2.	Audit fees are based on auditors' experience rather than audit quality.						
3.	Audit fee is a direct function of the risk associated with auditing a firm.						
4.	Auditors charge higher audit fees on the basis of higher audit quality.						
	Audit firm tenure and audit quality	**SD 1**	**D 2**	**F.D 3**	**F.A 4**	**A 5**	**SA 6**
5	Long audit tenure is asymmetric to audit quality.						
6.	Long audit firm tenure encourages auditors in contravening standards and rules.						
7.	Long audit firm tenure provides an auditor the privilege to provide a qualified opinion (a report that does not show a true and fair view).						

8.	Long association with client lead to impairment of audit quality.						
	Collection of loans and other credit facilities and audit quality	**SD 1**	**D 2**	**F.D 3**	**F.A 4**	**A 5**	**SA 6**
9.	Loan collection prevent auditors from expressing a true and fair view of a company’s financial statement.						
10.	Collection of loans from audit clients prevent auditors from providing an unqualified report (a report that shows a true and fair view).						
11.	Collection of loan from client can lead to impairment of audit quality.						
12.	Collection of loan prevent auditors from being objective in carrying out the audit assignment.						

APPENDIX 2

Analysis of variables of audit quality from financial statements

Zenith Bank

	2012	2013	2014	2015	2016	2017	2018
Auditor	KPMG	KPMG	KPMG	KPMG	KPMG	KPMG	KPMG
Total assets (billion)	2.44	2.88	3.42	3.75	4.28	4.83	4.96
Total equity (million)	440	470	510	550	610	700	680

Diamond Bank

	2012	2013	2014	2015	2016	2017	2018
Auditor	KPMG	KPMG	KPMG	KPMG	KPMG	KPMG	KPMG
Total assets (billion)	1.06	1.35	1.75	1.56	1.66	1.89	1.69
Total equity (million)	110	140	210	210	210	210	220

Ecobank

	2012	2013	2014	2015	2016	2017	2018
Auditor	Deloitte	Deloitte	Deloitte	Deloitte	Deloitte	Deloitte	Deloitte
Total assets (billion)	1.99	2.25	2.42	2.36	2.05	2.24	2.26
Total equity (million)	217	213	266	252	176	217	181

First Bank

	2012	2013	2014	2015	2016	2017	2018
Auditor	PwC	PwC	PwC	PwC	PwC	PwC	PwC
Total assets (billion)	2.71	3.12	3.12	2.88	2.82	2.70	2.70
Total equity (million)	108	371	371	959	575	755	803

Fidelity

	2012	2013	2014	2015	2016	2017	2018
Auditor	EY	EY	EY	EY	EY	EY	EY
Total assets (billion)	2.48	2.56	1.19	1.23	1.30	1.38	1.72
Total equity (million)	193	236	173	184	185	201	194

United Bank for Africa (UBA)

	2012	2013	2014	2015	2016	2017	2018
Auditor	PwC	PwC	PwC	PwC	PwC	PwC	PwC
Total assets (billion)	1.93	2.22	2.34	2.22	2.54	2.93	3.59
Total equity (million)	220	260	282	338	391	401	364

Union Bank

	2012	2013	2014	2015	2016	2017	2018
Auditor	KPMG	KPMG	KPMG	KPMG	KPMG	KPMG	KPMG
Total assets (billion)	0.89	0.88	0.92	1.00	1.12	1.33	1.32
Total equity (million)	172	188	206	234	251	319	200

Access Bank

	2012	2013	2014	2015	2016	2017	2018
Auditor	PwC	PwC	PwC	PwC	PwC	PwC	PwC
Total assets (billion)	1.52	1.70	1.98	2.41	3.09	3.50	1.16
Total equity (million)	238	245	274	360	422	469	410