
AUDITING STANDARDS AND AUDITORS PERFORMANCE: THE NIGERIAN EXPERIENCE

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ABSTRACT: *In this paper an attempt is made to demonstrate the application of auditing standards on auditor's performance. The study involves firms in Nigeria. A 13-item questionnaire constructs by the researchers, validated by two experts and which has an internal consistency co-efficient of 23 percent served as the instrument of data collection. This study, empirically using ordinary least square (OLS), reveals that the external auditors in Nigeria are complying with standards and many criticisms were directed to International Auditing Standards. Consequently, the research suggests the need for more interpretations, clarifications and improvements to be more applicable and suitable for the Nigerian auditing environment.*

KEYWORDS: International Auditing Standard, Auditor, Audit Firms and Nigeria Auditing Standard.

INTRODUCTION

In the early history of public accounting, when accounting associations started to emerge during the 1880s in the United Kingdom (UK), the quality of audit examination often varied widely, depending on the skill understanding and judgment of the particular auditor involved. Even at that early stage in its development, the profession quickly recognized that standards as such were clearly needed. For instance, the American Institute of Certified Public Accountants (AICPA) formed a committee on auditing procedures in the 1950s. That committee was interest in setting the audit standards for use by auditors. The AICPA Committee published its report in 1954 (AICPA, 1954). This report was the basis of registering auditing companies in the United States (US) for much of the 50s into 70s.

To this end, the American profession began drawing up a number of authoritative standards that have now undergone several decades of refinement and interpretation. A set of Generally Accepted Auditing Standards (GAAS), to use their official designation, was issued. It is essential that every auditor have a thorough understanding of these standards. These standards are the model that should be used to judge an auditor's performance level.

Auditing standards are important to the user of accounting reports and data such as banks, host community, shareholders, government, creditors etc. The standards explain the responsibility and independence of the auditor from the point of view of management and shareholders. International standards have been formulated to harmonize auditing practices between different nations and are to be applied where there are no local standards. In Nigeria, the International Standards on Auditing (ISA) are mandatory for the companies quoted on the Nigeria Stock

Exchange (NSE) where Nigerian Auditing Standards do not exist. But due to the peculiarity of the Nigerian environment on July, 2006 nine (9) Nigerian Standards on Auditing (NSA) were issued. These claimed priority over the ISAs in the Nigeria context.

The objective of the audit of financial statements is to enable the auditor to express an opinion on whether the financial statements were prepared, in all material respects, in accordance with an identified financial reporting framework. The auditor's opinion is intended to enhance the credibility of the financial statements. To achieve these objectives there are requirements that should be satisfied according to the ISAs and NSAs.

It has been asserted that many Nigerian auditors are not complying with the general auditing standards, field work standards and reporting standards and that there is a need for guidelines for applying the broad concept of these requirements to Nigerian circumstances. Against this backdrop, the paper is therefore to examine auditing standards as they influence auditors performance. In order to achieve this objective, the paper will be divided into six sections. The next is section II which deals with the review of related literature, section III deals with the methodology used, section iv looks at discussion of results, findings, recommendations and conclusion comprise the final part of the paper.

REVIEW OF RELATED LITERATURE

Generally, standards are a means to an end. More specifically they are instruments of regulation used by man in the attainment of his goals and objectives. The word "standard" originally stood for a banner whose purpose was to orient and gather scattered forces in a battle, obviously a regulative function. The Oxford Dictionary of Accounting describes auditing standards as the basic principles and essential procedures with which auditors are required to comply in the conduct of any audit of financial statements. This is the basic principles which govern the auditors professional responsibilities and which must be complied with whenever an audit is carried out. Auditing standards are a number of rules accepted by the profession as guidelines to measure transactions, event and circumstances which affect financial results and financial information supplied to beneficiary parties (Igbinosun, 2011). These standards should be related to the relevant objectives of the audit, which should be relevant and appropriate within the social environment. Therefore, these standards should satisfy the four criteria of relevance, acceptability, consistency and suitability. The Auditing Practices Committee issued a series of auditing standards between 1980 and 1991. The standards issued by its successor body, the Auditing Practices Board (APB) are known as Statement of Auditing Standards (SAS). The APB also issues practices Notes (to assist the auditor in applying auditing standards of general application to particular circumstances and industries) and Bulletins (designed for issue when guidance is needed on new or emerging issues), practice Notes and Bulletins are not prescriptive. They are an indication of current good practices. International Standards of Auditing (ISA) Statement of Internal Auditing Standards, Statement on Auditing are standards being set by their various committees.

International Auditing Practice Committee believes that the issue of such standards and statements improve the degree of uniformity of auditing practices and related services throughout

the world (IFAC, 1997). It is however, clarified that the guidance's do not override statutory or professional regulations. Though the International Auditing Guidelines apply (IAG) primarily to independent financial audits, it is recognized that they may also have application, as appropriate, to other related activities of auditor. IAG are not automatically binding on the auditors in a particular country. However, they provide an authoritative view of what is internationally recognized as Generally Accepted Auditing Practices (GAAP) and thus, serve as the basis for the development of auditing pronouncements by professional bodies in individual nations.

Batra and Bagadia (1992) argue that in some nations, the IAG have been adopted without any change(s), in many others, they have been adopted with such modifications as are considered appropriate in the context of the domestic conditions. The ISA acknowledges that difference in financial reporting frameworks between countries result in comparative financial information being presented differently in each framework (Padar & Hopp 1998).

GAAP which is the overall guidelines for auditing establishes the framework within which an auditor decides the necessary action to take in preparing for the examination of financial statements, in performing the examination and in writing the report (Cook & Winkle, 1988). Hermanson, Shrawer and Shrawer (1993) view auditing standards as a measure used in determining the ability of the auditor in the performance of the procedures and the objectives to be attained by the use of the procedures undertakes. However, Molid (2009) states the objectives of IAS, to include: harmonizing the development of the auditing profession to follow development in business, bridging the gap between the auditors in the world, ensuring standards are of an acceptable level of quality of professional activity, being keystone in evaluation of auditor's performance and providing guidance about auditor's responsibility and due professional care.

Auditing standards set minimum standards of technical proficiency in auditing. These standards are applicable to each financial report audit made by an independent auditor regardless of the size of the entity, the form of business organization, the type of industry or whether the entity is for profit or not for profit. Shareholders and other users should be informed in the scope section of the audit report that the audit has been conducted in accordance with specified auditing standards.

Auditing standards provide guidance on the minimum level of care required in performing an audit. They may also comment on whether the professional standards are adequate ultimately, the courts determine whether this standard has been met during a particular engagement (Gill & Cosserat, 2000). Schulte (2007) states that when the conduct of an auditor is in question in legal proceeding it is not the province of the auditing profession itself to determine what is the legal duty of auditors or to determine what reasonable skill and care is required to be exercised in a particular case, although what others do or not what is usually done is relevant to the question of whether there had been a breach of duty. The court may decide that the standards are deficient. To meet changing business conditions and expectations, auditors should review and update their practices and procedures.

In general, standards are necessary to organize any profession and to promote, measure and improve the members' performance. Defliese, Jeanicks O'Realy and Hirsch (1988) observe that standards set the minimum level of performance and quality that auditors are expected by their clients and the public to achieve. Therefore, according to the auditing profession, auditing standards offer the following benefits:

- A reduction in the difference, which currently exists between audit reports therefore enabling used to better understand the message the auditor wishes to convey.
- A set of principles which will help professional judgment, to choose the relevant audit tasks to perform.
- An aid in persuading clients that the procedures which the auditors wishes to carry out are necessary (Kell, Boynton & Ziegler, 1986).

IAS, could increase the comparability of financial statements and greater harmonization of auditing standards. In addition, standards setters at the national level might also give consideration to these international standards in developing their own auditing standards (Rousey, 2004).

Harmonized standards is a common body of standards that could be used in preparing and auditing financial statements the world over, would simplify comparison of entities, financial positions, results of operations and cash flows. Currently, at least three international bodies are working towards harmonized auditing standards, viz: the International Federation of Accountants, the International Accounting Standards Committee and the International Organization of Securities Commissions (Roussey, 2004). That is, because the advantages of globalization, the auditing profession is receiving growing attention in the international community, hence there is an increasingly, important need to enhance our understanding of auditors diagnostic probability judgement in different cultures. Cultural diversity inhibits the establishment and enforcement of IASs.

The general auditing standards relate to the qualifications of the auditors and the characteristics that the auditors should possess. General standards require that the auditor: (1) be trained and proficient (2) be independent in fact and appearance and (3) exhibits due professional care during the audit (Harmanson, et al 1993). These standards provide general principles of an audit. The auditor should also comply with the code of ethics for professional accountants issued by the International Federation of Accountants and particularly the ethical principles governing an auditor's professional responsibilities which are stated under the following headings (IFAC, 1997).

- Independence.
- Integrity
- Objectivity
- Professional competence and due care
- Confidentiality
- Professional behaviour and
- Technical standards

These principles are imperative in maintaining public confidence in the work of the external auditor and this is an important issue for the ISAs. For example, if an auditor is not independent, a gap does exist between user's expectations and auditors performance and the burden of narrowing the gap between performance and expectations falls primarily upon auditors (Arrigyon, Hillons & Williams, 1983). That is because audit beneficiaries thought that auditors should act as society's corporate watch dog but auditors did not share that opinion.

Research Hypothesis

For the purpose of this study the hypothesis that will be tested in order to achieve the stated objective is:

H₁: The application of auditing standards enhances the quality of external auditors performance.

RESEARCH METHODOLOGY

The research design adopted in the study was the descriptive survey method. The design was adopted because the study involves the use of a representative sample from the population and the drawing of conclusion based on the analysis of available data. However, since the variables under investigation cannot be manipulated by the researcher. The survey method is relevant for the study.

The research population for this study consists of external auditors of the one hundred and forty two registered companies quoted on the Nigerian Stock Exchange. Great care was exercised to get a fair representation for the population as sample. Cost and time constraints influenced the sample size – 100 external auditors from audit firms in Nigeria. The sample was derived using the stratified random method. We divided the external auditors into four major sub-groups: multinational firms, large firms, medium firms, and small firms. After dividing the population into appropriate strata a simple random sample was taken with each stratum. One hundred (100) copies of questionnaire were administered and sixty-one (61) were returned, representing 61%.

All variables used in the analysis the model were measured on the basis of represents perception on the application of awaiting standards to the audit process of listed companies on the Nigerian stock exchange.

1. Model specification

$PERT = F[ACCSTNDA, AWDSTNDA, COMPET, \text{ and } compli]$

i.e $PERT = b_0 + b_1 ACCSTNDA + b_2 AWDSTNDA + b_3 COMPET + b_4 compli$

where:

dependent variable is audit performance (PERT).

Independent variables are; is auditing standards (AUDSTNDA) CONTROL variable are three i.e

Accounting standards (ACCSTNDA)

Competence (COMPET) and compliance (COMPLI)

Dependent and Independent variables are all measure based on the responses of the respondents to questions asked in the questionnaire that relates to performance of auditors, accounting standards, auditing standards, competence and compliance by auditors to the standards regulatory the auditing profession

All variables used in analysis except personal data were measured on the basis of participants perception of the application of auditing standards to the audit of quoted companies in Nigeria. A seven-point scale technique was used to assign number to the measure of the degree of intensity of the relationships between the independent and dependent variables. The 7-point Likert scale is: 1 = strongly disagreed; 2 = disagreed, 3 = moderately disagreed; 4 = neutral, 5 = agreed, 6 = moderately agreed, 7 = strongly agreed, was logically employed to quantitatively reflect this order ranking. The data collected by the researchers were analyzed using the ordinary least squares (OLS).

DISCUSSION OF RESULTS

The results of the research carried out are presented in the table below.

Table 1: Ordinary least squares results

Dependent variables is PERF

61 observations used for estimation for 1-61

Independent variables	Co-efficient	Standard error	t-value	Public
CONSTANT	16.3141	6.9317	1.3958	0.22
ACCSTNDA	.12842	.18761	.60454	.496
AUDSTNDA	.19304	.13779	1.4010	.167
COMPET	-0.086954	.18957	-0.45869	.640
COMPLI	-0.010427	.17773	-0.658668	.953

R^2 = square 0.069350

Adjusted R- square = 0.0028750

S.E of Regression = 6.2477

F- statistic = 1.0432

Mean of dependent variable = 23.4098,

SD of dependent variable = 6.2567

Durbin –watson statistics = 1.8665

PERT = 16.3141 + 0.12842 ACCSTNDA + 0.99305AUDSTINDA – 0.01043 COMPLI -0.08695
COMPET + U

An evaluation of the OLS results from Table 1 above reveals that the co-efficient of determination (R-square) stood at 0.069 indicating that about 6% of the systematic variations in the auditor performance level is explained by the variations in the explanatory variables in the model. This is a very low goodness of fit indicating that a larger part of the variations in audit performance is determined by the unexplained variables as captured by the error term. The F-statistic of 1.04 as a measure of the overall goodness of fit is less than the critical F value of 2.76

at 5% significance level. This suggests that the linear function specified in the model might not be the case. A close examination of the coefficients of the control variables and their t-values is indicative of their statistical significance. This reveals that the ACCSTNDA is positive. This implies that accounting standards provide the required framework that ensures audit performance. This is consistent with our a priori expectations. However, the effect is statistically insignificant at 5% level. This could imply that the existences of accounting standards, though a necessary condition, might not be a sufficient condition in ensuring audit performance. It follows that adherence to such standards and proper regulations to ensure compliance will be critical in achieving significant improvements in audit performance. The result also reveals that the variables AUDSTNDA is positive. This suggests that the auditing standards provide the required framework that ensures audit performance. This is consistent with appropriate expectations. However, the effect is also statistically insignificant at 5% level. This indicates that the existence of auditing standards though a necessary condition might not be sufficient condition in ensuring audit performance. It follows that adherence to such standards and proper regulation will be critical in achieving significant improvement in audit performance. The co-efficient of the variable COMPLI is negative. This indicates that compliance with standards may not necessarily lead to improved audit performance. Finally, the variable COMPET has a negative coefficient which implies that the effect of auditor competence level on audit performance is negative at 5% level, it negates our theoretical expectation. The DW-statistics of 1.9 does not provide convincing evidence of the possible existence of stochastic dependence between successive units of the error term, and thus on the average, the results obtained in the study could be regarded as unbiased.

	PEAR	ACCSTNDA	AUDSTNDA	COMPLI	COMPET
PEAR	1	0.196	0.239	0.517	0.063
ACCSTNDA	0.196	1	0.399	0.564	0.165
AUDSTNDA	0.239	0.399	1	0.0926	0.169
COMPLI	0.517	0.564	0.093	1	0.125
COMPET	0.063	0.165	0.169	0.125	1

Source (field work, 2013)

Where: PERT = Auditor performance,

AUDSTNDA = Auditing standards

ACCSTNDA = Accounting standards

COMPLI = Compliance

COMPLET = Competence

The correlation result in table 1 above shows that the independent variables tends to exhibit positive relationship with dependent variable (auditor performance). Specifically, accounting standards and auditor performance were found to be positively correlated with a correlation coefficient of 0.196, this is very low and thus suggests that positive but a weak association exist. The result also reveals that COMPLI and performance are correlated positively of 0.517, thus, suggests that increased compliance with standards in associated with improvement in auditor performance. COMPLET and PEAR are correlated positively at 0.063 this is very weak it was

also observed that correlated coefficient of 0.239. though the direction of association is positive, the degree is also weak

FINDINGS

From the analysis of data collected the following were revealed. We discovered that auditing standards and auditors' performance are positively correlated; suggesting that compliance with the provision of auditing standards in the course of audit engagement enhances auditor performance. This also suggests that auditing standards provide the required framework that ensures audit performance. It follows that adherence to such standards and proper regulations to ensure observance will be critical in achieving significant improvement in audit performance.

The study reveals that control variables (such as accounting standard and auditing standards) lend to exhibit positive association into auditor performance, which by extension means independent auditors in Nigeria in performing their audit assignment do comply with the auditing and accounting standards as required by

RECOMMENDATIONS

Based on the findings above, the following are suggested:

- The audit report should be expanded by including a statement about the auditors evaluation of the internal control system and the results of reviewing the entity's ability to continue in the future. Expectation of the audit report to explain in more details what the auditor does and does not and the degree of assurance provided by an audit to shareholders and other users of the audit report.
- The IAs, should reconsider the external auditors responsibility for detecting and disclosing the major or all fraud in the audit report. This will bridge the gap between the perceptions of external auditor and other stakeholders, the management and auditors in Nigeria should be responsible for detecting frauds errors, irregularities and other illegal acts and that the auditor should disclose all frauds of whatever form in the audit report.

LIMITATION OF THE STUDY

This study only covers the selected issues of IAs, in relation to Nigerians, there are many others issues which could be covered from a different perspective.

CONCLUSION

The study evaluates auditing standards and auditors performance. It was observed that the role of auditing has changed from the simple requirement that all resources have been duly accounted for, and that all uses were in accordance with the directives of the noble man in modern society an audit is viewed as providing assurances as to the performance of management in public companies whose investors may be national or international.

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