IAA JOURNAL OF SOCIAL SCIENCES (IAA-JSS) 6(1):100-113, 2020.
ISSN: 2636-7289
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Management Influence and Auditors' Independence: Issues Challenges and Prospects

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ABSTRACT

The study examines Management influence on auditors' independence: Issues challenges and prospects. The study examines the states which managements influence the independence of auditors and the variable mean in which they employ to achieve this. To achieve the objectives of this study, related literature from both primary and secondary sources were used in judgemental manner. The results therefore revealed that there is a significant relationship between management influence and auditors' independence. The role of the auditor has gone from fraud detection to expressing of opinion on the truth and fairness of financial statements. It has been observed that firms including have gone insolvent with clean audit reports; when legislation requires the auditor to qualify his opinion if he is of the view that the firm is likely/unlikely to continue as a going concern. A few suggestions are put forward which will lead to some reforms in accounting and auditing reforms.

Keywords: Earnings Management, Earnings Quality, Non-audit services, Marginal Loans

INTRODUCTION

As a result of the significant number of financial statement fraud in the late 1990's and early 2000's, auditors' independence became a widely debated topic in the press and by Securities and Exchange Commission [1]. The Sarbanes-Oxley Act (SOX, 2002) was the culminating regulatory change brought about as a result of the accounting scandals. Included in the Sarbanes-Oxley Act (SOX) are multiple attempts to enhance auditor independence. One specific provision of SOX directed at increasing auditors' independence is the enhancement of audit committee's responsibilities to eliminate management influence on the external auditor. Included among the audit committee's new responsibilities is the responsibility for auditor appointment.

Section 301 of SOX (2002) states "The audit committee of each issuer, in its capacity as a committee of the board of directors, shall directly responsible for the appointment, compensation and oversight of the work of any registered public accounting firm employed by that issuer ….for the purpose of preparing or issuing an audit report or related work, and each such registered public accounting firm shall report directly to the audit committee".

While recommendations existed for auditor appointment to be a responsibility of the audit committee prior to the Act, statutory requirement existed until the enactment of SOX. Previous Researches has documented negative consequences on auditors' independence resulting from management influence on the external auditor. For example [2], argued that in the event of adverse auditor negotiations; e.g. determination of whether to issue a going concern opinion, the threat of dismissal by management and audit committee independence affect auditors' decisions. As such, by eliminating management threat of dismissal through audit committee responsibility for appointment and termination, overall committee auditors' independence is expected.

Statement of the problem

To enhance auditor independence, the Sarbanes-Oxley Act (2002), placed responsibility for a firm's relationship with the external audit firm directly on the audit committee. This shift of responsibility represents a regulatory attempt to eliminate management influence on the external auditor by inserting an independent audit committee between management and the external auditor. The Sarbanes-Oxley Act (hereafter SOX) states that the audit committee "…shall be directly responsible for the appointment, compensation, and oversight of the work of any registered public accounting firm …" (Section 301, SOX). This regulation represents a new statutory requirement for independent audit committees.However, the effectiveness of the regulation in enhancing auditor independence remains uncertain. To evaluate this new requirement, we examined if management influence impacts audit firm selection decisions in the post-SOX era and whether management influence impacts auditor independence.

In a survey of Big four partners and managers, [3], found external auditors perceive management as 'key drivers in determining auditor appointments and terminations' post-SOX. In a survey of audit committee members, however, [4] found audit committee members perceives themselves as fulfilling the responsibilities outlined by SOX, including the appointment and termination of the external auditor. These studies provide conflicting evidence on the effectiveness of regulation requiring audit committee responsibility for audit firm selection. Our study provides the first large-sample empirical evidence evaluating the effectiveness of this provision of the Sarbanes-Oxley Act. To empirically examine the impact of management influence on the audit firm selection decision, we use management affiliations as a proxy for management influence.

Management influence on the audit committee, and consequently, the external auditor can take many forms and is therefore difficult to empirically observe. The identified management influences which constituted key problems to this study are none audit duties, earning management, marginal loans, insider loans and agency relationships. To date, we are unaware of any sample of empirical evidence documenting the effectiveness of SOX on auditor appointment decisions.

Objectives of the study

The main objective of the study is to examine the extent of management influence on auditors' independence.The specific objectives are to:

1. Examine the significant effect of non-audit duties on audit quality
2. To evaluate the significant effect of earnings management on audit quality.
3. To ascertain the extent to which marginal loans influence audit quality
4. To determine theextent to which insider loans influence audit quality

Research Hypotheses

The null research hypotheses for the study are as follows

H01: Non audit duties do not significantly affect audit quality

H02: Earnings management does not significantly affect audit quality

H03: Marginal loan does not significantly affect audit quality

H04: Insider loans do not significantly affect audit quality.

LITERATURE REVIEW

Conceptual Framework

Audit independence

[5] defines auditor independence as "the conditional probability that given a breach has been discovered, the auditor will report the breach". This is in concert with [6] [7], who define auditor independence as "truthful reporting". As an extension of [8], interpret a lack of independence to mean that "an auditor's decisions are not consistent with his or her beliefs regarding a reporting policy".

[9], elaborate that the misapplication of an accounting rule is not impaired auditor independence but impaired "auditor competence". They propose that an auditor's independence is impaired when the auditor allows an audit failure to occur. An audit failure happens if the auditor makes a reporting decision inconsistent with their professional judgment. In contrast with this school of thought, which fails to stipulate a requirement that the client is complicit in the failure of the auditor to report a [10], defined auditor independence as "the absence of collusion between the auditor and the manager of the client firm".

[11], defined auditor independence as the ability of the auditor to examine the financial statements and circumstances of a client from an unbiased perspective. Auditor independence is an internally manifested attitude as well as a characteristic perceived by third parties [12]. Auditor independence is critical to the accounting profession and the ability of its members to offer investors objective opinions and reports; [13]. As [14], explained, the opinions issued by auditors are only useful if the auditor is independent of the client in fact and in appearance. Auditors are expected to issue opinions on the fair presentation of financial statements of their clients [15]. As further clarified by [16], this task is complicated by the fact that audit clients directly compensate auditors and because of this, regulators use standards of conduct to promote objective reports for the users of financial statements.

However, despite its importance to the profession and the users of financial data, auditor independence can be a complex and intangible value. As [17], explained, various situations can cause a third party to question auditor independence. It was the purpose of the Sarbanes-Oxley (SOX) (2002) legislation in the United States (US) to address non-audit services, partner rotation, audit engagement team members, inappropriate compensation from the client, and impartial audit committees as situations that can appear to influence the auditor's independence negatively. Researchers such as [18]; [19]; [20]; [21]; [22]; [23]; [24]; [25], [26], have all used factors such as those included in the SOX legislation to empirically study the perception of independence in settings across the world.

Management influence

Management influence is the process where the auditor cannot carry out his auditing work creditably but bases his judgement on the condition, perception, feeling and mode of the management and client. This is to say that, the auditor has to bend the rules of auditing to suit what the management has done or intends to do. Management influence may be referred to as a systematic misrepresentation of the true financial position of a business. It could also be construed as window dressing of accounts, cooking of accounts, creating or manipulation of figures being reflected in the financial statement. This vindicates [27], a former CBN governor, when he accused banks managements of manipulating the financial statement thus: I will fire any bank CEOs that '' cook the books''. Management influence generally takes effect when management allows the auditor to see only what they would want him to see which can be psychological, systemic and economical.

Types of management influence

One of the major areas that management can influence auditors, is in the area of non-audit services. [28] [29], in their research on management influence have found that non audit functions, depending on the amount involved do have negative economic effect on auditors' independence. It is almost a normalcy for an auditor to also be a consultant on such matters as tax and management services to the same company. Where does the auditor draw the line? The answer although vague, is in the rules of professional conducts for members of the institute of chartered accountants of Nigeria (ICAN), ''members may provide these services without basically affecting their independence, in the provision of statutory audit''. This

basically may not be enough, because the auditor is an economic being and may not be able to resist the overbearing influence of the management.

Earnings management can be a factor in which an auditors' independence can be influenced. Earnings management involves the artificial increase (or decrease) of revenue, profit or earnings per share figures through aggressive tactics. Aggressive earnings management is a form of fraud and differs from reporting error. Management wishing to show earnings at a certain level or following a certain pattern seek loopholes in financial reporting standards, that allow them (management) to adjust numbers as far it is possible, to achieve that desired aim or to satisfy projections by financial analyst. It is relatively easy for an auditor to detect error, but earnings management can involve sophisticated fraud that is covert. The requirement for management to assert that the financial statements be prepared properly offers no protection where those managers have already entered into conscious deceit and fraud.

This conscious deceit and fraud by management which subsequently led to the sack of bank's CEOs in Nigeria, was what the CBN audit team uncovered in the recapitalized banks, when it audited their books of account in 2009. This was so startling that, in his address to the annual conference of the ICAN in Abuja, Nigeria said; ''Nigerians would be startled when the sacked CEOs are confronted with the details of their acts in courts''. He then asked the accountants rhetorically, ''while these were happening, where were the accountants and auditors''? He concluded by saying'' someone was reporting profits, paying dividends out of operations that could not by any standard be said to be profitable, that is why we are where we are''. This can be indicting to both accountants and auditors. But again the auditors were only doing what they were supposed to do, by expressing an independent and fair opinion based on a financial statement presented by the managements.

Marginal loan is one critical area of earnings management that managements has at its disposal to influence the independence of an auditor. Marginal loans are loans advanced to investors for the purpose of investment in securities. The so called investors are at times directors who incidentally engaged the auditor. According to Sanusi of the CBN, ''the five banks whose chief executive were removed had total loan portfolio of N2.8 trillion, out of which marginal loans accounted for N456.2 billion''. These loans might have had securities on paper but not in reality. The auditor is only working on what he sees and will only express an opinion on that. To plug this loophole, restore order and professionalism, the CBN had directed for the full disclosure on financial statement of banks and has made it an offence for banks to advance loans without assessing the credit worthiness of the customer of any form. Insider loans are loans that carry all the trappings of earnings management. Insider loans are granted to managements and directors with or without adequate security. Where this is the case, the loans would be so managed in order to evade the scrutiny of the auditor. According to [30], insider loans contributed to the killing of over 13 banks that could not recapitalized in 2005. This according to the senate banking and finance committee (2009), totalled N53.3 billion. To check these influences in the banks, the CBN had directed that December 31st of every year be the uniform business year for all banks taking effect from 2009.

Components of auditors' independence

Independence and ethics are the ultimate principles of auditing. This is to say that for the auditor to be said to be independent, he has to exhibit some principles consisting of rationality, fairness, impartiality, efficiency, refraining from willing harm to a human being and role responsibility, [31]. The component of auditors' independence borders on ethics. The syllabus of the institute of chartered accountants of Nigeria (ICAN) has listed three

components of auditors' independence, which include obligation, independence and public expectation. Independence is absolutely necessary if the report issued by the auditor is to even worth the pieces of paper on which it is written. The auditor, who has lost his independence, has lost his integrity and the entire accountancy profession may be led to a negative view from the public, [6].

To be independent the auditor must be intellectually honest; to be recognised as independent, he or she must be free from any obligation to or unfair personal interest in the clients business, its management or owners, [12]. An opinion by an auditor as to the fairness of the statement of accounts in fact and in appearance is of no value unless the auditor is truly independent. Consequently, the auditing standard states '' in all matters relating to the assignment of independence, mental attitude is to be maintained by the auditor. This perhaps, is the most essential factor in the existence of accounting profession. The auditor must not be perceived as being under the influence or control, or having any vested interest in the results reported in the financial statements.

The guidelines helpful in achieving these goals are found in the code section on the association of international certified public accountants (AICPAs) rules pertaining to integrity and objectivity for certified public accountants (CPAs) states, ''a CPA lacks independence and thus may not audit a company if he/she or the spouse or dependent owns stock in that company and/or has certain other financial or employment relationships.

Management influence on auditors' independence

Auditors' independence has been termed the cornerstone of the auditing profession, since it is the foundation of the public trust in the auditor. Independence is fundamental to the reliability of auditors' report. These would not be credible, and investors or creditors would have little or no confidence in them, If auditors were not independent in both ''fact and appearance''. To be credible, an auditors' opinion must be based on objective and disinterested assessment of whether the financial statements are presented fairly in conformity with generally acceptable accounting principles. As expressed by the council of the American Institute of Certified Public Accountants (AICPA), in a statement adopted in 1947. ''Independence both historically, is the foundation of the public accounting profession and upon its maintenance depends the profession's strength and its stature''.

If the auditors' opinion must be in fact and in appearance, how does the management influences the duty of the auditor? According to [8], a chartered accountant and a partner of Jim Henry and Company, questioned thus, '' what can the auditor do, when the auditor only audits what the management want him to see and audit''. This is to say that, what the management don't want to be audited, they may devise a means to ensure that those aspects of the transactions of the firm are not allowed access to, by the auditor. According to [14], '' it is relatively easy for an auditor to detect error, but earnings management can involve sophisticated that is covert. He went on to say that, the requirement for management to assert that the accounts have been prepared properly offers no protection, where these managers have already entered into conscious deceit and fraud. He went on to caution'' auditors need to distinguish fraud from error by identifying the presence of intentions. Great advice. In the prevailing situation, what is the meaning of intention? Maximizing the shareholders wealth or according to [27], ''cook the books''?. Cooking the books is always intentional and in some cases, the auditor is always in the ''know'' of what is wrong with the financial statement of the firm. This is so since they audit the books of the company year in year out. Author Anderson, Enron former auditors could not deny the fact that it did not know about the covert and overt intentions of

the company when it was coasting to failure, and the audit company was still issuing unqualified reports on the financial state of the company, thereby giving it'' a clean bill of health'', till the day it collapsed finally and the bubble burst.

[19], has an answer for this. According to them, '' the accounting firm Author Anderson, Enron's former auditors for, among other things lacking independence, since the accounting firm earned more revenue from non-audit services than from audit services. If this the case, is there any iota of conflict of interest? [6], contended that ''the provision of most non-audit services threatens auditors independence, since economic bond, which the auditor does not want to lose, develops between the client and the accounting firm''. It is important to mention that management can use the non-audit rendered by the company's auditor to make him look the other way while illegalities are committed in the financial statement being audited by him. That is to say, the financial statement will look good in appearance and not in fact.

In November of 2000, the United States Security and Exchange Commission (SEC), adopted a new rule that prohibited accounting firms from providing certain non-accounting (consulting) services to their audit clients. The rule also required public companies to disclose in their proxy statements the fees paid to their independent auditors for audit and non-audit services. In adopting the rule, the security and exchange commission (SEC) argued that, a basic conflict of interest exists in providing both auditing and consulting services for a client. That conflict, the commission claimed undermines the integrity of audit. Over the years, managements have refused to deal with individual accountants or auditor to audit their financial statements but instead opt to the use of accounting firms to audit their accounts. Where the auditor is one person, the issue of auditors' liability becomes uppermost in his mind, and will go a great length to ensure that his report really reflects the true position of the firm in fact and appearance. In essence the audit report should be'' signed by an auditor and not on behalf of the audit firm'' who is an individual and who will also have some level of fear to disclose any perceived weakness in the financial statement so audited in order to escape liability. But when it involves a firm which is made of partners, nobody is held accountable but the firm which is only an entity, like in the case of Enron. Enron as a firm only suffered collapse and liquidation, but some or all of the individual accountants who were the auditors of Author Anderson and company went free. This informed the decision of Honourable Justice Abang (2011) of the federal high court Lagos, on a case between Mazi Okechukwu Unegbu, KPMG professional services and Guinness Nigeria Plc. on who should sign an audit report, stated thus ''the fact under section 358(4) of CAMA, a firm is qualified for appointment as auditors if the partners are qualified accountants , cannot be interpreted to mean that the name and signature of a person on a financial statement of a company that was enrolled to practice as an accountant under section 8(1-3) of ICAN act should be dispensed with.

This is to say that the audited financial statement should be signed by an auditor as a partner of the accounting firm and not as the firm itself. Although as stated by section 358(1) and (4) and paragraph 16(2) of the Nigerian standard on auditing , issued by the institute of chartered accountants of Nigeria in November, 2007, stated that, '' an accountant is qualified to be appointed as auditor, could legally sign such reports provided the official seal of the chartered accountant signing the report was used''. This is at variance with the judgement of the high court (already stated), which held that, '' it is only an accountant which includes an auditor as defined by law and not an audit firm that can sign documents certifying the action taken in compliance with the various provisions of the law and

in particular the financial statement and auditors report''.

THEORETICAL FRAMEWORK

Regulatory theory

In view of the inadequacies of the free market approach to setting accounting standards, attention has been drawn to alternative approaches. It has been argued that perceived crisis initiates accounting regulatory policies or standard is stimulated by perceived crisis, the regulators (standard setters) respond by supplying the policies. The interactions between the demand and supply factors lead to an equilibrium. In a dynamic regulatory mechanism, there is a continuous process of adjustment of the policies or standards to changing demand and supply patterns.

As [23], explains, regulation is generally assumed to be desired and operates for the benefit of a given industry. There are two categories of regulation theory: public-interest theories; and interest-group or capture theories; [17] [18]. The public-interest theories maintain that regulation is supplied in response to the demand of the public for the correction of inefficient or inequitable market practices. They are instituted primarily for the protection and benefit of the general public. Regulation according to the interest-group capture theories is supplied in response to the demands of special interest groups in order to maximize the income of their members. There are two main versions of this theory; the political ruling-elite theory of regulation; [19], and the economic theory of regulation; [22]. The political ruling elite theory uses political power of gain regulatory control and the economic theory relies on economic power.

Regulatory theory or the theory of what constitutes maximizing behavior in an accounting regulatory agency is in its infancy. The fundamental issues of why regulate at all, and whether regulation is efficient and desirable are still being discussed. The subject of regulation for competition has become increasingly important in recent years. Among the relevant issues here are: what constitutes an efficient allocation of resources? How does this relate to the question of distribution of income? What is the cost of competition law? What is the definition for the market? What is the definition of public benefit? As many of the crucial issues of regulation have not been resolved yet. Obviously, more research is needed to develop a theory of regulation of accounting standards.

Empirical Framework

[25], carried out a comprehensive review of academic research pertaining to auditor's independence and audit quality. Based on their review, concluded that, there is limited evidence that auditors independence is compromised in the presence of client importance. Financial statement users generally perceive non-audit services as a threat to auditor independence. Their finding concludes that auditing tenure does not impair independence. Furthermore, their findings show that only a few studies have examined the client affiliation threat and the evidence is mixed.

[30], reviewed literature on effect of auditor independence on audit quality. The review is ex post facto in nature where secondary data was employed. Their findings also revealed four threats to auditor independence, client importance, non-audit services, audit tenure and client's affiliation with CPA firms. Furthermore, their findings discovered that some findings indicated a positive relationship while others showed contrary due to the type of study design employed, sample size, data collection instruments and analysis techniques used.

[9], examined factors influencing auditor independence among listed companies in Nigeria using generalized method of movements (GMM) approach, with a sample of 65 firms out of the 194 listed on the Nigeria Stock Exchange. These comprises of 14 money deposit banks, one mortgage bank and 50 non-financial firms. Secondary data was employed for the study and were sources from the audited financial reports of sample

companies and fact book of the Nigerian Stock Exchange between the period of 2006 to 2013. Data were analyzed using descriptive statistics and generalized method of movements. The study revealed that Big4, audit tenure, profitability, leverage and inventory account receivable had negative significant impact, which can impair auditor independence. Furthermore, size of the firms and loss had positive influence on auditor independence in Nigeria.
[11], examined the relationship between audit quality and auditors' independence in Nigeria. A cross sectional study analysis of companies listed on the Nigerian Stock Exchange was carried out. A sample of twenty (20) audited financial reports of these companies for the period ending 2011 was selected using the simple random sampling technique. The data collected for the variables were subjected to the ordinary least square (OLS) regression analysis. Findings indicated that as auditors" independence increases, the quality of audit also improves and as the independence of the board and ownership structure increases, the quality of audit reduces.
[27] studied impact of auditor tenure on audit quality in four European countries of Germany, France, Italy and Spain, using generalized method of movements (GMM) model during the period from 2005 to 2013. Two GMM methods are used with two alternative definitions of crises-the main and the robustness method. The findings show that the impact of Spanish auditors' long-tenure on discretionary accruals, affecting auditors' quality and independence indirectly.
[28], investigated whether perceptions of auditor independence and audit quality are influence by audit firm rotation, auditor retention and joint audits by conducting an experiment with bank directors and institutional investors in Germany. The result indicates a negative main effect for joint audit on perceived auditor independence. Also, beside the main effects, planned contrast tests suggest a negative interaction between rotation and joint audit on participant perceptions of auditor independence. Furthermore, the study could not identify a positive impact of the regulatory measures taken or supported by the European Commission on perceptions of auditor independence and audit quality.
[27], examined factors affecting auditors independence in Nigeria. The study employed survey research design and data were collected using Likert-rated questionnaire, sampling 150 chartered accountants in 15 audit firms in Lagos, by random sampling. Analysis was carried out using descriptive statistics and chi-square in testing the hypothesis. Their finding shows that each of the factors of size of audit firm, audit market competition, audit firm tenure, size of audit fees and non-audit services has significant relationship with auditor's independence.
[16], conducted research on factors affecting the independence of the external auditor within the auditing profession. The findings revealed that the most important of the findings are auditing standards and professional behavior are the most impact factors on the independence of the auditor and that the integrity, honesty and truthfulness of the qualities that must be provided by the independent auditor.
[4], examined mandatory audit firm rotation and prohibition of audit firm-provided tax services: evidence from investment consultants' perception. Their study provides experimental evidence on effects of rotation system, the impact of non-audit services (auditor-provided tax services) and the interaction between both regulatory issues. Based on the assessment of 140 professional investment consultants from credit institutions, their result shows that the provision of tax services by the audit firm decreases independence.
[6], studied statutory auditors' independence in India: an empirical analysis from the stakeholders' interest perspective. Their findings indicate that statutory auditors fail to detect irregularities in financial books due to

their lack of independence and professional scepticism. Additionally, a long association between a statutory auditor and a client is one of the major reasons behind statutory auditors' lack of independence.
[14], examined factors affecting auditors independence in Tunisia: the perceptions of financial analysts. Their study investigates the impact of 49 independence enhancing and threatening factors on the perceptions of 54 financial analysts using questionnaire instrument. Their findings revealed that, the principal threats to independence are, provision of non-audit services and existence of personal and financial relationships.

METHODOLOGY

This study made use of a survey research design. The data collected from the selected samples described the nature, characteristics and experience of the universe or population, as well as explore the relationship between variables in the study.The population of the study consists of all the commercial banks trading on the floor of the Nigerian Stock Exchange (NSE). The sample size of four commercial banks was selected based on aw judgmental sampling technique
The data for this study was gathered using questionnaire and personal interviews. The questionnaire was administered personally by the researcher. Copies of the questionnaire were then distributed to the randomly selected sample commercial banks. The study adopted the inductive and empirical methodological framework. After collection of the data from the questionnaire, the data was tabulated and statistically analysed using the Ordinary Least Squares (OLS) analytical techniques.

Model Specification

The regression model for the study is expressed below as thus:
AUD.Q = f (NAD, EM, ML, IL, AR)
This is mathematically stated as:
$AUD.Q = \beta0 + \beta1\ NAD1 + \beta2\ EM + \beta3\ ML + \beta4\ IL + \beta5\ AR + \mu$
Where:
AUD.Q= Audit Quality
NAD = Non-Audit Duties
EM = Earnings Management
ML = Marginal Loan
IL = Insider Loan
AR = Agency Relationship
$\beta0$ = Unknown constant to be estimated
$\beta1$ - $\beta5$ = Unknown coefficients to be estimated
μ = Stochastic error term

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

Table 1: Distribution of questionnaire

Commercial Bank	Number Distributed	Number Returned	Percentage Returned	Percentage Not Returned
Access Bank Plc	10	7	70	30
Eco-Bank Plc	10	9	90	10
UBA Plc	10	8	80	20
Polaris Bank Plc	10	7	70	30
Total	40	31	77.5	22.5

Source: Field Survey, 2020.

The table above shows the distribution of questionnaires to the sampled commercial banks. From the table, it can be seen that out of the forty questionnaires distributed only thirty-one were actually received constituting 77.5%.

Table 2: Regression results on management influence and auditor independence
Dependent variable: Audit Quality (AUD.Q)

Variable	Estimated Coefficients	Standard Error	T-Statistic	P-Value
Constant	41.563	11.183	3.716	.001
NAD	-.188	.148	-7.275	.000
EM	-. 190	.193	-5. 983	.000
ML	-. 120	.080	-4. 500	.001
IL	-. 387	.143	-6.702	.000
AR	-. 233	.161	-5.447	.000
R		= **0.935**		
R – Square		=	0.916	
Adjusted R-Square		=	0.891	
SEE		=	3.99581	
F – Statistic (df1 =5 & df2 = 25)		=	12.883(p.000)	
Durbin Watson Statistic		=	2.027	
t- statistics (table value) at 5% two tail		=	2.04	
		=		

Source: Researcher's Estimation 2020

Table 2 shows the regression results on management influence and auditor's independence. The independent variable management influence is mirrored by Non-Audit Duties (NAD), Earnings Management (EM), Marginal Loan (ML), Insider Loan (IL) and Agency Relationship (AR) while the dependent variable is also mirrored by Audit Quality (AUD.Q).
The regression result showed that the estimated coefficients of the regression parameters have negative signs and thus conform to our economic a priori expectations. The implications of these signs are that the dependent variable (audit quality) is negatively influenced by Non-Audit Duties (NAD), Earnings Management (EM), and Marginal Loan (ML), Insider Loan (IL) and Agency Relationship (AR). This means that an increase in the independent variables will bring about a poorly qualified report.
The coefficient of determination R-square of 0.916 implies that 91.6% of the sample variation in the dependent variable is explained or caused by the explanatory variables while 8.4% is unexplained. This remaining 8.4% could be caused by other factors or variables not built into the model. The high value of R-square is an indication of a good relationship between the dependent and independent variables.
The value of the adjusted R2 is 0.891. this shows that the regression line captures more than 89.1% of the total variation in corporate productivity caused by variation in the explanatory variables specified in the equation with less than 10.9% accounting for the error term.
Testing the statistical significance of the overall model, the F-statistic was used. The model is said to be statistically significant at 5% level because the F-statistics computed at 12.883 is greater than the F-statistic table value of 2.60 at df1=5 and df2=25.
The test of autocorrelation using DW test shows that the DW value of 2.027 falls within the inconclusive region of DW partition curve. Hence, we can clearly say that there exists no degree of autocorrelation.

Test of Hypotheses

H01: Non audit duties do not significantly affect audit quality

With reference to Table 2, the computed t-statistic is -7.275 while the table value at two tail five percent level of significance with degree of freedom n-2 (i.e.31-2=29) is -2.04. since the computed value is greater than the table value, the null hypothesis is rejected and the alternative accepted, meaning that non audit duties do significantly influence audit quality.

H02: Earnings management does not significantly affect audit quality

With reference to Table 2, the computed t-statistic is - 5.893 while the table value at two tail five percent level of significance with degree of freedom n-2 9i.e.31-2=29) is -2.2.04. Since the computed value is greater than the table value, the null hypothesis is rejected and the alternative accepted, meaning that earnings management do significantly influence audit quality.

H03: Marginal loan does not significantly affect audit quality

With reference to Table 2, the computed t-statistic is -4.500 while the table value at two tail five percent level of significance with degree of freedom n-2 (i.e. 31-2=29) is – 2.04. Since the computed values is great than the table value, the null hypothesis is rejected and the alternative accepted, meaning that marginal loans do significantly influence audit quality.

H04: Insider loans do not significantly affect audit quality

With reference to Table 2, the computed t-statistic is -6.702 while the table value at two tail five percent level of significance with degree of freedom n-2 (i.e. 31-2=29) is – 2.04. Since the computed values is great than the table value, the null hypothesis is rejected and the alternative accepted, meaning that marginal loans do significantly influence audit quality.

DISCUSSION OF FINDINGS

Based on the analysis and empirical results, the study revealed that all the estimated coefficients of the regression parameters have negative signs and thus conform to our economic a prior expectation. The implications of these signs are that the dependent variable, audit quality is negatively influenced by Non-Audit Duties (NAD), Earnings Management (EM), Marginal Loans (ML), Insider Loans (IL) and Agency Relationships (AR). This means that an increase in the independent variables will bring about a poorly qualified auditor's report.

Specifically, a one percent increase or decrease in management influence mirrored by Non-Audit Duties (NAD), Earnings Management (EM), Marginal Loans (ML), Inside Loans (IL) and Agency Relationships (AR) would lead to poorly qualified auditor's report with a margin of approximately -0.188, -1.190, -0.120, -0.387 and -0.233 respectively.

The study revealed that, management influence has a significant negative influence on auditor's independence. This result is in line with the work of Lennox and Park (2007) who found out that management affiliations (i.e.Non-Audit Duties (NAD), Earnings Management (EM), Marginal Loans (ML), Inside Loans (IL) and Agency Relationships (AR) have a significant impact on audit quality.

CONCLUSION

The role of the auditor has evolved from fraud detection to expressing of opinion on the truth and fairness of financial statements. It has been observed that firms including banks in Nigeria have gone insolvent with clean audit reports; when legislation requires the auditor to qualify his opinion if he is of the view that the enterprise is unlikely to continue as a going concern. This legislation has become outdated and the basic ground rules of our political system have prevented necessary legislative reforms; this faulty legislative system has institutionalized a corrupt set of structures and these structures lead to biased decisions and occasionally outright corruption. Current laws have created an insufficient, unethical and wasteful system.

This system is where accounting and auditing find themselves. This no doubt raises the question as to what extent a third party such as investors may place reliance on the auditors' report. The whole area of auditors' negligence is worthy of investigation and this researcher can only conclude to the lack of research into the judgmental processes used by audit partners in coming to a qualified report and this where independence comes into question.

RECOMMENDATIONS

The study was set out to study management influence and its influence on auditor's impendence. Having identified some of the causes, the study then makes the following recommendations:

1. The federal government can push the independent financial reporting council bill through the legislature into law. This body may be likened to public company accounting oversight board (PCAOB) in the United States of oversee the audit of public companies. As part of it's functions, the Board should register audit firms, quality control, punishment, ethnical and other standards relating to the preparation of audit reports, conduct investigations, conduct disciplinary proceedings concerning violations of financial security laws and ensure independence of auditors, unlike the current situation where this is left to the individual professional bodies of accounting in Nigeria- ICAN and ANAN.
2. There should be mandatory rotation of external auditors for at least three- or four-year tenure. This will reduce the level of familiarity of auditors with client 's management and staff. This will go a distance to reduce the dominance of the big audit firms and encourage the smaller ones to grow.In addition, external auditing firms should be prohibited from providing certain non-auditing services especially those linking them directly to financial information and design, internal control tax consultancy etc, alongside auditing functions. There should be aw law to this effect.
3. The accounting professional bodies should team up and establish aw monitoring system or mechanism to lead the crusade on transparency and accountability in reporting.
4. Audit reports should be signed by an auditor who represents and auditing firm and not for the firm. This is so, that in terms of auditor's liability one person (the auditor) should bear the brunt and not the whole auditing firm. Non-auditing functions although desirable must not be allowed to blur the core objectives of auditing.Auditing firms should be smaller and branded because brand named auditors are perceived to be independent.Finally, public companies should disclose in their proxy statements the fees paid to their auditors for non-audit services.

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