



## INDEPENDENCE OF STATUTORY AUDITOR AND RELIABILITY OF FINANCIAL STATEMENTS: EVIDENCE FROM LISTED MANUFACTURING COMPANIES IN NIGERIAN



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### ABSTRACT

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This study examined the impact of the independence of statutory auditor on the reliability of financial statements of the manufacturing companies in Nigeria. The study adopted a survey research design, using data collected from a structured online questionnaires administered to the shareholders of listed companies in Nigeria. The population of the study comprised all shareholders in Nigerian listed companies, 150 structured questionnaires were randomly distributed from which 137 were retrieved from the respondents. The gathered data were analyzed using descriptive and inferential statistics. For unwavering quality, the Cronbach alpha was utilized to test the dependability of the instrument. The paper found that independence of statutory auditors had a positive significant effect on reliability of financial statements (RFS) ( $F = 9.018$ ,  $Adj. R^2 = 0.191$ ,  $p < 0.05$ ). Also that Non-financial interest (NFI) had a positive insignificant effect on RFS,  $AdjR^2 = 0.195$ ;  $F\text{-Stat.} = 9.255$ ;  $P = 0.000$ . Audit tenure (AT) also had a positive significant effect on RFS,  $AdjR^2 = 0.078$ ;  $F\text{-Stat.} = 3.877$ ;  $P\text{-value} = 0.005$ . While Non-audit services (NAS) exhibited a positive significant effect on RFS,  $AdjR^2 = 0.118$ ;  $F\text{-Stat.} = 5.568$ ;  $P\text{-value} = 0.000$ . Based on the findings, the study recommended that audit firms should regulate the number and length of non-audit services rendered to companies they serve as external auditor and also undergo a frequent review on financial statements where their clients have interest in order to reduce self-review and self-interest threat.

**Contribution/ Originality:** This study contributes in the existing literature by extending the frontiers of knowledge in independent statutory audit and profitability. It study brings to fore, the relevance of audit tenure and audit fees as an attributes of corporate governance in enhancing required transparency, information disclosures and quality of reported financial statements.

## 1. INTRODUCTION

### 1.1. Background to the Study

Globally, besides the auditing functions, financial statements naturally would lack credibility and of no consequently as investors, analysts and all other stakeholders mirror the underlying economic performance of companies based on the audited financial report of companies (Aguguom *et al.*, 2018). Thus, auditing plays a

prominent role in the successful administration and operations of an entity and the reliance of its performance by the general public. The impetus and spur behind the advent of getting an external auditor to certify the financial statements of an entity was due to the managerial revolution. Managerial revolution simply means the separation of ownership from management (Kufur, 2002). This development arose as a result of the introduction of jointly owned organizations where it seems practically impossible for all owners to manage the resources. Consequently, the owners of such companies appointed other people to direct the day-to-day affairs on their behalf. As a result, a need for accountability arose; and this called for the development of a periodic reports on financial affairs and level of progress achieved by the business. These periodic reports are prepared by the management (Board of Directors) and presented to the owners (shareholders).

Despite the importance attached to external audit function, the independence and sovereignty of the external auditor is an issue currently attracting scholarly scrutiny (Adeyemi and Akinniyi, 2011). In support of this statement, Xu and Wang (2008) reiterated that independence has long been recognized as the most important defining characteristic of the public accounting profession. Independence, both historically and philosophically, constitutes the foundation of the accounting profession and upon it, depend the profession's forte and stature (Chia-Ah and Karlsson, 2010). The sovereignty of an external auditor demonstrates objectivity and builds the trust of those who place great reliance on it. Since independence is of great importance to the auditing profession, the rules and principles related to it must remain relevant, effective and fair in any business environment (Eilifsen *et al.*, 2006). The recent audit failures around the world have left the community with a skeptical mind about auditors' independence and companies take such advantage in manipulating their taxable obligation to their own benefit (Olaoye and Agugum, 2018).

The need to safeguard the independence of auditors is therefore necessary to gain public trust and confidence. Considering the benefits attached to safeguarding auditor independence, the European Commission has issued standards to be applied throughout the European Union. The USA enacted the Sarbanes Oxley (SOX) Act of 2002, which describes the independence requirements of US auditors. As a guideline, the EU committee on Auditing spells out some fundamental principles which serve as recommendation called Statutory Audit Independence in the EU: A set of fundamental principles (Hayes *et al.*, 2004).

Consequently, it is very important to safeguard auditor's independence as there are various relevant stakeholders that rely and make economic decisions on the financial statements certified unqualified by the statutory auditors (Olagunju, 2011).

### *1.2. Statement of the Problem*

Public confidence in auditor's independence has been damaged and impaired due to several contemporary firms' scandals that have directly or indirectly involved auditors. These scandals have taken place not just in one country but across the world: HIH Insurance and One.Tel in Australia; Enron, Hewlett-Packard, and WorldCom in the US; Vivendi in France; Ahold in the Netherlands; Cadbury Nigeria Plc in Nigeria; Parmalat in Italy; and Kanebo and Olympus in Japan, amongst others. These scandals have caused the public and other stakeholders to suffer huge losses and also damaged auditors' reputation and the auditing profession as a whole (Damai, 2013).

The setback of the banking sector in Nigeria, partly as a result of financial and accounting scandals directly or indirectly involving the auditors, with twenty-six (26) banks liquidated in 1997 and the more recent post consolidation banking crises of 2009 when ten (10) banks were declared insolvent and eight (8) executive management teams of the banks were removed by the Central Bank of Nigeria (CBN). In 2006, Cadbury Nigeria Plc was involved in the most noteworthy corporate scandal in Nigeria. All of these events and cases had their deep influences and effects on the psyche of the shareholders. In all of the scandals, the cruxes of discussion were the reliability of accounting information and the need to review the effectiveness of accounting standards, auditing processes and financial reporting practices (Adeyemi and Asaolu, 2013).

The challenge is that the corporate management is empowered to appoint, hire, fire, and pay both their internal and external auditors. Auditors, therefore, develop good relationships with management to maintain the job of the client. They may not, therefore, be independent of the corporate management because auditors will understandably want to keep their clients for as long as possible (Nashwa, 2003).

In Nigeria, several audit failures have occurred, some leading to the restatement of figures in the financial statements. Although, it has not been proven by any detailed investigation that these audit failures were due to impairment of auditor's independence but it could reasonably be suspected to be a major contributing factor (Adeyemi and Okpala, 2011).

From the foregoing, the study seeks to ascertain the impact independence of statutory auditor has on the reliability of financial statements of Nigerian listed companies.

The main objective of this study is to ascertain the impact of independence of external auditors on reliability of financial statements of Nigerian listed companies. Hence, its specific objectives includes:

- Determining the impact of the statutory auditors' independence on the completeness of financial statements.
- Ascertaining the impact of the statutory auditors' independence on the neutrality of financial statements.
- Evaluating the impact of the statutory auditors' independence on financial statements' compliance with regulatory framework.
- Determining the impact of the statutory auditors' independence on the degree of freedom from material error in financial statements

In an attempt to find solutions to the problems investigated, certain questions were developed to which answers were provided in the course of the study. The research questions that guided this research work are: What is the impact of statutory auditors' independence on the completeness of financial statements? What impact does the statutory auditors' independence have on the neutrality of financial statements? What impact does the statutory auditors' independence have on the financial statements' compliance with regulatory framework? What is the impact of the statutory auditors' independence on the degree of freedom from material error in financial statements?

### 1.3. Research Hypotheses

The hypotheses to be tested for the purpose of this study are stated thus:

*H<sub>1</sub>: Statutory auditors' independence has no significant impact on the completeness of financial statements.*

*H<sub>2</sub>: Statutory auditors' independence has no significant impact on the neutrality of financial statements.*

*H<sub>3</sub>: Statutory auditors' independence has no significant effect on financial statements' compliance with regulatory framework.*

*H<sub>4</sub>: Statutory auditors' independence has no significant impact on the degree of freedom from material error in financial statements.*

### 1.4. Significance of the Study

It is expected that this research work will fill the gap created by previous studies by providing a clearer understanding of the impact of independence of external auditors on the reliability of financial statements of listed companies in Nigeria. It is also expected that the study will be of importance in terms of providing assistance in areas of further learning and serving as a basis for literature review in their research work. The research will be useful to students in their quest for the knowledge of independence of statutory auditors, reliability of financial statements and can serve as an area of reference in their academic endeavor. The research work would prove to be of immense benefits to current and potential investors, both domestic and international, whose understanding of factors that may hinder the independence of statutory auditors and how they affect the reliability of financial statements of listed companies in Nigeria in recent times would aid their decisions. This research will serve as a source of enlightenment to the external auditors about how their independence affects shareholders' and other

stakeholders' reliability on the audited financial statements. This understanding would aid them in providing sound audit services to their clients. The study will also prove significant to other categories of stakeholders, amongst who are members of the general public interested in being informed, Central Bank of Nigeria (CBN), Securities and Exchange Commission (SEC).

## 2. LITERATURE REVIEW

### 2.1. Conceptual Review

**Audit Independence:** Auditor independence refers to an absence of interest by the auditor in the auditing assignment, thereby avoiding material bias that could affect the reliability and credibility of the financial statements. Generally, independence is in two forms i.e. independence of the mind and independence in appearance. The former, requires the auditor to have a "state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgement allowing an individual to act with integrity and exercise objectivity and professional skepticism (Hayes *et al.*, 2004)." While independence in appearance requires the auditor to avoid situations that will cause others to conclude that they are not maintaining an unbiased objective attitude of mind (Nasser *et al.*, 2006).

**Reliability:** The concept of reliability is a quality of information that assures and guarantees decision makers that the financial and non-financial information contained in the financial statements captures the accurate state of affairs and events of the reporting business entity (Adediran *et al.*, 2013).

**Financial Reporting:** According to Igben (1999) cited in Olagunju (2011) financial reports are a formal record of business activities to serve as an overview of the financial performance and position of companies to enables users make better economic decision. Financial reports give highlight on the financial information giving insights on how an organization utilized its resources, the claims against those resources and owners and effects of transactions that change its resources and claims to these resources (Glaugier and Underdown, 2001).

### 2.2. Theoretical Review

For the purpose of this study, the following theories will be employed to further buttress the concept of auditor's independence and reliability of financial statements:

**Stewardship Theory:** Stewardship theory was proposed by Donaldson and Davis (1991;1993). Stewardship theory has been framed as the organizational behavior counterweight to rational action theories of management (Donaldson and Davis, 1991;1993). This theory posits that there is no conflict of interest between managers and owners, and that the goal of governance is, precisely to find the mechanisms and structure that facilitate the most effective coordination between the two parties (Donaldson, 1990). Stewardship theory is presented as an alternative to agency theory.

**Agency Theory:** Agency theory was propounded by Jensen and Meckling (1976). Agency theory illustrates the conflict between principal and agent; where the principal (owner) lacks reasons to trust his or her agents (directors) because of information irregularities and contradictory motives. Information asymmetry deals with the study of decisions in transactions where one party has more or superior information than the other party or parties. External auditors are used as a third party to try to align the interests of agents with principals and to allow principals to assess and manage the behavior of their agents and strengthen the trust. However, this creates a new concept of the auditors as agents, which leads to threats to objectivity and independence. When an auditor performs an audit for a company, they are acting as agents for the principals and this relationship develops similar threats to trust and confidence as the director-shareholder relationship.

**Stakeholder Theory:** Stakeholder theory was propounded by Freeman and Reed (1984). The stakeholder theory is fundamentally a theory about how business works at its best, and how it could work. This theory is about

value creation and trade and how a business is managed effectively. The stakeholder theory argues that there are other individuals that matter such as customers, lenders, creditors, employees, communities, and so on.

**Policeman Theory:** This was the most widely held theory on auditing until the 1940s. Under the policeman theory, an auditor acts a policeman focusing arithmetical accuracy and on prevention and detection of fraud. However, due to its ability to explain the shift of auditing to, 'verification of truth and fairness of the financial statements', the theory seems to have lost much of its explanatory power. The policeman theory narrows auditor's responsibilities to prevention and detection of fraud. The theory describes the expectations the stakeholders have of the auditors, including protection against fraud, warning of future insolvency, and general re-assurance of financial well-being.

### *2.3. Theoretical Framework*

For the purpose of this research, the agency theory is considered as the major underpinning theory. The results of the research work would be related to this theory, and conclusions would be drawn based on it.

### *2.4. Empirical Review*

Babatolu *et al.* (2016) conducted a research 'Auditor's independence and audit quality: A study of selected deposit money banks in Nigeria', which has its objective as to examine the effect of auditor's independence on audit quality of selected deposit money banks in Nigeria and discovered there is a positive relationship between audit fee and audit quality. They also found out that a positive relationship exists between audit rotation and audit quality; and finally revealed that there exists a negative relationship between audit firm tenure and audit quality. The population used by the authors for the study comprised of twenty (20) listed deposit money banks in Nigeria and the purposive sampling technique was used to select sample size of seven (7) banks. Secondary data was explored sourced from the audited annual report of the sample banks over a period 14 years (2009-2013). A panel data analysis was carried out considering the fact that the study simultaneously combines cross sectional and time series data. The data analysis techniques that were adopted for the study consisted: descriptive statistics, correlation and ordinary least square. The authors discussed that the need to ensure dependable and high quality audit work has been largely focused on auditor's independence in order to ensure that an auditor is not too familiar with his client, because familiarity will jeopardise the integrity of the auditor and in turn impair their independent opinion as to the financial health of their client. They highlighted the major threats to auditor independence as the fees received by the auditor for audit, non-audit services and the length of the auditor-client relationship. Based on their study, the authors recommended that accounting and auditing professional bodies regulate governmental actions and raise alarm on rules and policies that could impede the auditors from properly discharging their responsibilities during any audit assignment.

In his own contribution, Odia (2015) examined a review on auditor tenure, auditor rotation and audit quality. The author discussed in this study that there have been great concerns for the preservation of the auditor's independence since audited financial statements are the joint product of auditor-client negotiation process. The author revealed shorter audit tenure tends to be linked to low audit quality while longer audit tenure provides for high audit quality. He reiterated that the rotation of audit firm does not have a better effect on audit quality as it may enable more frequent opinion shopping and low-balling. The author further stated that rotation of audit firm discourages accretion of audit expertise, downgrades the valuable signal of auditor change, and shifts even more resources from substantive verification and tests to marketing of audit services. After the conclusion, the author recommended that major accounting standards boards should appraise the effectiveness of existing requirements to enhance the independence of auditors and quality of audit, voluntary audit partner rotation within an audit firm as a safeguard to reduce the potential compromise of auditor independence and audit quality, independence and capacity of the audit committee should be enhanced to perform their oversight functions of the auditor's work effectively and efficiently and ensure auditors' independence.

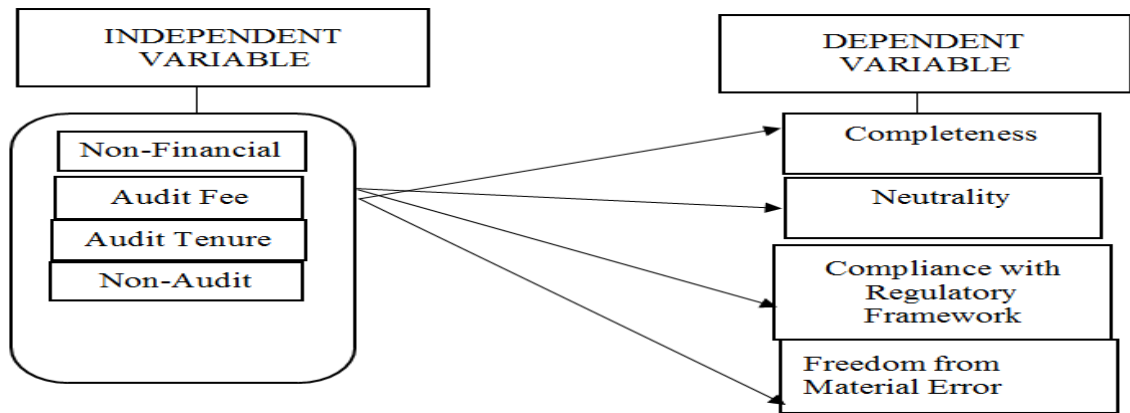
Mitrendu and Siddhartha (2016) analysed statutory auditors' independence in India: An empirical analysis from the stakeholders' interest perspective' and realised that the lack of implementing the regulatory framework, long audit tenure and provision of non-audit services could impair statutory auditors' independence. They highlighted that statutory auditors' independence is a matter of huge significance in ensuring consistency and validity of financial statements prepared by a company's management. The study is exploratory in nature and is based on both primary and secondary data. The convenience sampling technique was used to select respondents from different occupational groups. However, the study revealed that fixing a maximum limit on audit fees and remuneration would not have any impact in reducing statutory audit failure. The authors concluded that procedure of appointment, tenure of service, and close relationship with management are the major influencing factors of statutory auditor's independence. Rotation of auditors, strong disciplinary framework, external review of audit work, and all activities that improve the ethical orientation of the statutory auditors were considered to be important safeguards to statutory auditors' independence. They further stated that individual occupational categories are significantly different in their opinion for all other variables that positively or negatively influence statutory auditors' independence.

Zayol *et al.* (2017) studied the effect of auditor independence on audit quality: A review of literature' which objective was to examine the relationship between auditor independence and audit quality established that there is a strong relationship between auditor independence and audit quality. The study also revealed four threats to auditor independence, namely: client importance, non-audit services, audit tenure and client's affiliation with Certified Public Accountants (CPA) firms. The ex post facto research design was employed for the purpose of this study. Secondary sources of data were employed to achieve the objective of the study. In the course of the research work, the authors highlighted that the auditor may develop close relationship with the client and become more likely to act in favour of the management if the relationship between the auditor and client lengthens. They further discussed that the more the auditor has at stake in its dealing with the client, particularly when the non-audit services relationship has the potential to generate significant revenues, the more the auditor's independence is threatened and certain types of non-audit services, when provided by the auditor, create inherent conflicts that are incompatible with objectivity. Based on the review, the authors concluded that there is a strong positive relationship between auditor independence and audit quality. Hence, it was recommended that more investigations should be conducted most especially in Nigeria taking into consideration the four major threats revealed and extend to other sectors like manufacturing, transport, media, education, etc.

Olowookere and Oladejo (2014) investigated the influence of remuneration and tenure on auditors' independence in Nigeria' and concluded that since auditors' independence has an effect on public confidence in the reliability of audit report, rotation of external auditors should be mandatory after ten years. They also concluded that virtually all the listed companies in Nigeria strictly comply with the provisions contained in CAMA with respect to remuneration and tenure of external auditors, hence, fixing of auditors' remuneration of the listed companies by the audit committee can guarantee auditor independence; and audit firms that provide external auditing services should not be permitted to provide consulting services to the same client simultaneously. For the purpose of the study, Lagos state was considered as a case study. Survey approach was adopted for data collection which allowed the researchers to administer questionnaires. The population of the study consisted 186 firms involving in various sectors of the Nigerian economy particularly listed on the Nigerian Stock Exchange Secondary data was gathered from published annual reports of some selected listed companies on Nigerian Stock Exchange and Fact Book for the relevant years (1999 – 2009). The authors further suggested that an independent body should be responsible for the fixing of auditors' remuneration instead of the directors to determine their remuneration as stipulated by the Companies and Allied Matters Act, 2004. The authors further recommended that there is the need for the Nigeria Financial Reporting Council and other regulatory bodies in line with best practices to look critically

into the issue of auditor tenure and the impact on audit quality which in turn signifies that there should be a limit set on the number of years for which both auditors and the clients can be in a relationship.

### 2.5. Conceptual Model



**Figure-1.** Conceptual Model: The relation between independence of statutory auditors and profitability.  
 Source: Researchers' conceptual, 2019.

## 3. METHODOLOGY

This paper adopted survey research design using a structured questionnaire, while descriptive and inferential statistics were employed in the analyses of the retrieved questionnaire from the respondent. The population of this study comprised the shareholders in all listed companies on Nigerian Stock Exchange for a period of 10 years (2008-2017). The population of the study comprised all shareholders in Nigerian listed companies, 150 structured questionnaires were randomly distributed to these shareholders, from which 137 responses were obtained from the respondents. The gathered data were analyzed using descriptive and inferential statistics. The online questionnaire was distributed to 150 shareholders out of which the researcher received 137 responses for analysis. This gives a response rate of 91.33%. For unwavering quality, the Cronbach alpha was utilized to test the dependability of the instrument. Statistical Package for Social Sciences (SPSS) was used to analyze the data collected.

### 3.1. Model Specification

The model was derived using functional relationship between the dependent variable i.e. Independence of statutory auditors, and the independent variable; reliability of financial statements.

$$Y = f(X)$$

Where

Y= Dependent Variable (Reliability of Financial Statement-ROFS)

X= Independent Variable (Independence of Statutory Auditors-INOFA)

Y=  $y_1, y_2, y_3, y_4$  and X=  $x_1, x_2, x_3, x_4$

Y = Reliability of financial statements

$y_1$  = Completeness (C)

$y_2$  = Neutrality (N)

$y_3$  = Compliance with regulatory framework (CRF)

$y_4$  = Freedom from material error (FME)

X = Independence of statutory auditors

$x_1$  = Non-financial interest of auditors (NFI)

$x_2$  = Audit fees (AF)

$x_3$  = Auditors' tenure (AT)

$$\begin{aligned}
 x_4 &= \text{Non-audit services (NAS)} \\
 C &= f(\text{NFI, AF, AT, NAS}) & (1) \\
 N &= f(\text{NFI, AF, AT, NAS}) & (2) \\
 \text{CRF} &= f(\text{NFI, AF, AT, NAS}) & (3) \\
 \text{FME} &= f(\text{NFI, AF, AT, NAS}) & (4)
 \end{aligned}$$

3.1.1. Models

$$\begin{aligned}
 C &= \beta_0 + \beta_1 \text{NFI} + \beta_2 \text{AF} + \beta_3 \text{AT} + \beta_4 \text{BNAS} + \mu & 1 \\
 N &= \beta_0 + \beta_1 \text{NFI} + \beta_2 \text{AF} + \beta_3 \text{AT} + \beta_4 \text{NAS} + \mu & 2 \\
 \text{CRF} &= \beta_0 + \beta_1 \text{NFI} + \beta_2 \text{AF} + \beta_3 \text{AT} + \beta_4 \text{BNAS} + \mu & 3 \\
 \text{FME} &= \beta_0 + \beta_1 \text{NFI} + \beta_2 \text{AF} + \beta_3 \text{AT} + \beta_4 \text{BNAS} + \mu & 4
 \end{aligned}$$

3.2. Reliability of Research Instrument

The reliability of the research instrument used in this research work was determined using Cronbach’s Alpha.

Table-1. Reliability statistics of each section of the research questionnaire.

Items	Cronbach’s Alpha	Number of Items
Independence of statutory auditors and completeness of financial statements.	0.666	5
Independence of statutory auditors and neutrality of financial statements.	0.667	5
Independence of statutory auditors and compliance with regulatory framework.	0.595	5
Independence of statutory auditors and freedom from material error.	0.609	5

Source: Field study, 2018.

Table 1 shows the Cronbach’s Alpha of the reliability of the instrument used in the study.

Table-2. Reliability statistics of the research questionnaire as a whole.

Item	Cronbach’s Alpha	Number of Items
Independence of statutory auditors and reliability of financial statements.	0.842	20

Source: Field study, 2018.

The reliability index for this instrument was 0.842 for the overall scale. The reliability index for the subscale and later modification of the questionnaire items reliability is shown in Table 2.

4. DATA ANALYSIS/TESTING HYPOTHESES

4.1. Hypothesis One

$H_0$ : Statutory auditors’ independence has no significant impact on the completeness of financial statements.

4.1.1. Findings

The regression result from Table 3 indicates adjusted R-squared of 19.5% which shows that the combined impact of the independent variables that make up independence of statutory auditors (NFI, AF, AT, and NAS) on completeness of financial statements (dependent variable) is statistically significant. Although the impact of independence of statutory auditors on the completeness of financial statements is weak due to the adjusted R-squared which is low at 19.5%, this could be due to the fact that there are other factors that affect the completeness of financial statements. It reveals that 80.5% of the variations in the completeness of financial statements were not measured in this research work.



**Table-3.** Completeness of fin. statement (C) and statutory auditors independence.

$$C = \beta_0 + \beta_1.NFI + \beta_2.AF + \beta_3.AT + \beta_4.BNAS + \mu$$

Independent variables	Coefficients	Dependent variable	
		C	
		t-statistics	Prob.
NFI	0.211	1.70	0.090
AF	0.215	1.470	0.144
AT	0.368	2.722	0.007
NAS	0.038	0.356	0.723
R Squared		0.219	
Adjusted R Squared		0.195	
F- Statistics		9.255	
Prob. (F-Statistics)		0.000	

Source: Field survey, 2018.

\*\*Significant at 5% level ( $p < 0.05$ ).

#### 4.1.2. Decision

From the regression result, in Table 3, there is an empirical evidence that the variables of independence of statutory auditors contribute significantly to improve completeness of financial statements. From the study, the  $AdjR^2 = 0.195$ ; F-Stat. = 9.255; P-value = 0.000. Consequently, we do not accept the null hypothesis that says, there is no significant relationship between independence of statutory auditors and completeness of financial statements, but accept the alternative.

#### 4.2. Testing Hypothesis Two

$H_0$ : Statutory auditors' independence has no significant impact on the neutrality of financial statements.

**Table-4.** Neutrality of fin. statement (N) and statutory auditors independence.

$$N = \beta_0 + \beta_1.NFI + \beta_2.AF + \beta_3.AT + \beta_4.BNAS + \mu$$

Independent variables	Coefficients	Dependent variable	
		N	
		t-statistics	Prob.
NFI	0.188	1.243	0.216
AF	0.387	2.168	0.032
AT	-0.021	-0.128	2.251
NAS	0.294	2.251	0.026
R Squared		0.215	
Adjusted R Squared		0.191	
F- Statistics		9.018	
Prob. (F-statistics)		0.000	

Source: Field survey, 2018.

\*\*Significant at 5% level ( $p < 0.05$ ).

#### 4.2.1. Findings

The regression result from Table 4, indicated an adjusted R-squared of 19.1% which shows that the combined impact of the independent variables that make up independence of statutory auditors (NFI, AF, AT, and NAS) on neutrality of financial statements (dependent variable) is statistically significant. Although the impact of independence of statutory auditors on the neutrality of financial statements is weak due to the adjusted R-squared which is low at 19.1%, this could be due to the fact that there are other factors that affect the neutrality of financial statements. It reveals that 80.9% of the variations in the neutrality of financial statements were not measured in this research work.

#### 4.2.2. Decision

From the regression result on Table 4, the Adjusted  $R^2 = 0.191$ ; F-Stat. = 9.018; p-value = 0.000, there is an empirical evidence that the variables of independence of statutory auditors contribute significantly to improve neutrality of financial statements. Therefore, we do not accept the null hypothesis that says, there is no significant relationship between independence of statutory auditors and neutrality of financial statements, rather accept the alternative.

#### 4.3. Testing Hypothesis Three

$H_0$ : Statutory auditors' independence has no significant effect on financial statements' compliance with regulatory framework.

**Table-5.** Fin. statements' compliance with regulatory framework (CRF) and statutory auditors' independence.  
 $CRF = \beta_0 + \beta_1 NFI + \beta_2 AF + \beta_3 AT + \beta_4 NAS + \mu$

Independent variables	Coefficients	Dependent variable	
		CRF	
		t-statistics	Prob.
NFI	-0.102	-0.626	0.533
AF	0.173	0.895	0.372
AT	0.393	2.193	0.030
NAS	0.201	1.417	0.159
R Squared		0.105	
Adjusted R Squared		0.078	
F- Statistics		3.877	
Prob. (F-statistics)		0.005	

Source: Field survey, 2018.

\*\*Significant at 5% level ( $p < 0.05$ ).

#### 4.3.1. Findings

The regression result from Table 5 indicates an adjusted R-squared of 7.8% which shows that the combined impact of the independent variables that make up independence of statutory auditors (NFI, AF, AT, and NAS) on financial statements' compliance with regulatory framework (dependent variable) is statistically significant. Although the impact of independence of statutory auditors on financial statements' compliance with regulatory framework is weak due to the adjusted R-squared which is low at 7.8%, this could be due to the fact that there are other factors that affect the financial statements' compliance with regulatory framework. It reveals that 92.2% of the variations in the financial statements' compliance with regulatory framework were not measured in this research work.

#### 4.3.2. Decision

From the regression result as in Table 5, the result revealed that Adjusted  $R^2 = 0.078$ ; F-Stat. = 3.877; P-value = 0.005, this revealed that there is an empirical evidence that the variables of independence of statutory auditors contribute significantly to improve financial statements' compliance with regulatory framework. Consequently, we do not accept the null hypothesis that says, there is no significant relationship between independence of statutory auditors and financial statements' compliance with regulatory framework, but accept the alternative.

#### 4.4. Testing Hypothesis Four

$H_0$ : Statutory auditors' independence has no significant impact on the degree of freedom from material error in financial statements.

**Table-6.** Freedom from material error (FMR) and statutory auditors' independence.

$$FME = \beta_0 + \beta_1NFI + \beta_2AF + \beta_3AT + \beta_4NAS + \mu$$

Independent variables	Coefficients	Dependent variable	
		CRF	Prob.
		t-statistics	
NFI	0.047	0.285	0.776
AF	0.214	1.095	0.276
AT	0.373	2.059	0.041
NAS	0.212	1.477	0.142
R Squared		0.144	
Adjusted R Squared		0.118	
F- Statistics		5.568	
Prob. (F-statistics)		0.000	

Source: Field survey, 2018.

\*\*Significant at 5% level ( $p < 0.05$ ).

#### 4.4.1. Findings

The regression result from Table 6 indicates an adjusted R-squared of 11.8% which shows that the combined impact of the independent variables that make up independence of statutory auditors (NFI, AF, AT, and NAS) on the degree of freedom from material error in financial statements (dependent variable) is statistically significant. Although the impact of independence of statutory auditors on the degree of freedom from material error in financial statements is weak due to the adjusted R-squared which is low at 11.8%, this could be due to the fact that there are other factors that affect the degree of freedom from material error in financial statements. It reveals that 88.2% of the variations in the degree of freedom from material error in financial statements were not measured in this research work. Further investigation of the result reveals that the four variables of independence of statutory auditors have a positive relationship with the degree of freedom from material error in financial statements ( $\beta_1NFI; \beta_2AF; \beta_3AT; \beta_4NAS > 0$ ).

#### 4.4.2. Decision

From the regression result in Table 6, revealed that Adjusted  $R^2 = 0.118$ ; F-Stat. = 5.568; P-value = 0.000, that there is an empirical evidence that the variables of independence of statutory auditors contribute significantly to improve the degree of freedom from material error in financial statements. Therefore, we do not accept the null hypothesis that says, there is no significant relationship between independence of statutory auditors and degree of freedom from material error in financial statements rather accept the alternative hypothesis.

#### 4.5. Impact of Independence of Statutory Auditors on Reliability of Financial Statements

Dependent variable: Reliability of financial statements (RFS).

**Table-7.** Regression results for overall impact.

Variables	Coefficients	t-statistics	Sig.
Constant	0.793	1.802	0.269
NFI	0.188	1.192	0.216
AF	0.387	2.827	0.032
AT	-0.021	-0.128	0.898
NAS	0.294	2.251	0.026
R Squared		0.215	
Adjusted R Squared		0.191	
F- Statistics		9.018	
Sig. of F-statistics		0.000	
Number of observation		10	

Source: Field survey, 2018.

Model:  $RFS = f(NFI, AF, AT \& NAS)$

$RFS = 0.793 + 0.188NFI + 0.387AF + -0.021AT + 0.294NAS$ .

#### 4.6. Model Summary

From the output of the regression analysis indicated in Table 7, showed that the model summary shows an  $R^2$  value of 0.215 and an adjusted  $R$ -squared of 19.1% and this indicates that the independence of statutory auditors' variables which make up the independent variable account for 19.1% of the variations in the dependent variable (reliability of financial statements). However, there are other factors that affect reliability of financial statements that were not measured in this research work, as 80.9% of the variations in reliability of financial statements remains unexplained.

Also the study revealed that a unit change in each of NFI, AF, AT, NAS, will lead to an increase of 0.188, 0.387 and 2.94 respectively in RFS, while at the same time, a unit change in AT will lead to a decrease of 0.021 in RFS. The result further showed an  $F$ -statistics of 9.018, which is used to test the overall significance of the regression model is statistically significant at 5%, indicates that the combined impact of the independent variables (independence of statutory auditors' variables) on the dependent variable (reliability of financial statements) is statistically significant. Therefore, this provides an empirical evidence that the independent variables contribute significantly to reliability of financial statements.

## 5. CONCLUSION AND RECOMMENDATION

### 5.1. Conclusion

From the study, it can be concluded that independence of statutory auditors is essential during an audit engagement. It is, therefore, needful for statutory auditor to be independent during an audit engagement because it enhances the completeness and neutrality of financial statements. Also, if the independence of statutory auditors is guaranteed during an audit exercise, companies' financial statements will be perceived to have comply with stipulated regulatory frameworks which will have an impact on the financial statements' degree of freedom of material error.

### 5.2. Recommendations

Based on the findings of this study as stated above, the study recommends that:

1. Statutory auditors should take all possible measures which would make them independent in order to carry out their audit assignments successfully.
2. Statutory auditors should ensure that they do not earn a large proportion of their total income from a single client firm in order to cut off any intimidation or self-interest threat while carrying out their audit assignments.
3. Audit firms and companies should enforce the mandatory auditor's rotation scheme. This would help to reduce or eliminate familiarity threat, hence, ensuring shareholders' reliability on the financial statements.
4. To foster the independence of statutory auditors, audit firms should regulate the number and length of non-audit services rendered to companies they serve as external auditor to. With this, self-review threat would be eliminated and the statutory auditors can perform his work without due pressure.
5. Audit firms should undergo a frequent review on their employees' financial interest in their audit firms. This would assist in reducing self-interest threat when carrying out an audit assignment on a client firm.

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