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Financial Reporting Quality: Practicability Of Joint Audit In Nigeria

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Abstract
The study assessed the practice of joint audits on financial reporting quality among firms in Nigeria to determine its effect in ameliorating the problems of failure of firms that have been traced to be created by the quality of financial reporting.
Secondary data collected from the Annual Reports of 50 listed non-financial firms in Nigeria purposively selected was used for the study. Analysis of the data collected was done using the descriptive method by presenting them on tables and percentages The period covered by this study was from 2008 to 2018, a period of 11 months. The percentage score of the joint audit for the period was 6.4% which was very low.
The study concluded that the practice of Joint Audit in Nigeria is alien as 6 out of the 50 firms selected engaged the services of joint auditors within the period. This means that a joint audit is not practicable in Nigeria within the period reviewed.
Keywords*: Joint audit, Financial Reporting Quality, Ameliorating, Annual Reports*

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I. Introduction

The failure of firms across the globe posed a danger in the mind of investors in making investment decisions. Researchers have traced the failure to the quality of financial reporting especially the failure of firms in terms of full disclosure of adequate and relevant information in consonance with various reporting standards. Financial Reporting is significant in the investment decision process. It assists the investors in allocating scarce resources after studying the financial report as presented by the firms. The financial report which is the snapshot of the activities of firms brings the activities of the firms within the system as an output so that interested users will be able to make good use of the report in taking the right decisions on investment. But if the Financial Report is not well prepared, this can lead to misstatement, and the decision made by interested users will be badly affected leading to loss of funds and interest due to information asymmetry.

According to (Ebohodagbe, 1996); (CBN, 1997), (Bakre, 2007), (Ifeanyi 2011),;(Alexander 2018), (Fuller 2019), the financial scandals that affected firms with antecedent costs or loss of confidence in the financial reporting of firms were seen in Cadbury Nigeria Plc 2006, AfriBank Nigeria Plc 2006, Oceanic Bank Plc 2010, Clive Peeters 2010, Bank PHB Nigeria 2011, Access Bank Nigeria 2011, Intercontinental Bank 2012, Desert Resources 2014, Skye Bank 2018, Dick Smith Holdings 2018, Carillion 2018, Thomas Cook 2019,

The financial scandals of Eron (2001) made the Financial Accounting Standard Board to introduced new regulations to block all loopholes that the preparers of financial statements will not be able to manipulate thereby increasing the level of ethical conduct. Also the International Financial Reporting Standard (IFRS) came out with standards for the preparers of financial statements to follow while preparing the Accounting information. Some Countries have adopted the standard, Nigeria inclusive.

The failure of financial reporting quality was also adduced to the failure of auditing. Auditing can not be separated from financial reporting because it gives credibility to the financial report that was prepared by the firms. But the problem now lies with the opinion being expressed by the Auditors as to the true and fair view of the financial report which will in the end have failed. The Auditors now became a scapegoat for this expression.

The loss of confidence by interested users in financial reports is on the increase and researchers globally believe that solutions should be provided to improve the qualityof financial reporting quality so that the fear of interested users of financial statements will be laid to rest. This was the reason why this study looked at whether a Joint audit as a characteristic can ameliorate the problems created by financial reporting and how practicable is it in Nigeria's environment as reported in some research that Joint audits can improve the quality of financial reporting.

II. Literature Review

In a joint audit, the audited report will be produced by two or more independent auditors that are not from the same firm but are jointly and severally liable for the report (Alanezi, Alfaraih, Alrashaid & Albolushi 2012) and (Baldauf and Steckel 2012). The joint audit is, therefore, the coming together of two or more auditors to audit the books of accounts of the firm for the joint expression of an opinion. The proposal has been made that using joint audit formation is a remedy for the apparent lack of independence of auditors as it will thus enhance audit quality and will stimulate competition of audit in the market. (Haapamaki, Jarvinen, Niemi, & Zerni, 2012).

In advancing arguments further, the proponents of joint audits put forward that it enhances the auditor’s independence and reduces the risk of collusion between the auditors. When two people jointly handle an assignment it was said that two pairs of good eyes are better than one. Coming together from smaller farms gave them the chance of exposed to listed companies. On the other hand, the major arguments against joint audits are that the cost associated is high which includes organization and coordination costs and the core job may still be done by one firm. In addition, it could be ineffective because of inappropriate cooperation from the parties involved (Welch, 2011). It could be ineffective because of inappropriate cooperation. The issue of whether joint audits should be made mandatory is mired in controversy in developed countries with various stakeholders holding divergent views. For example, in a survey by the European Union in 2011, the Big Four audit firms were against the idea as they perceived that it will have a negative effect on the quality of audits. However, the mid-tier audit firms strongly supported the idea of robust reporting. Investors were divided on their opinion. Investors who opposed mandatory joint audits based their arguments on their effect on the cost of audit which will be pushed up. Many investors who supported the idea did so on the condition that audit committees properly own the relationship. Even Academics see making joint audits mandatory as excessive but welcome it if it is made optional. Preparers of Accounting information were not opposed to the principle of the joint audit if it is organized in such a way that its requirements are met and the objectives are achieved. (EU, 2011). The European Union reforms projected to take effect in mid- 2016 have now recognized joint audits as a viable system by encouraging it via a longer rotation period. The Union provides for an initial period of 10 years and an automatic (that is no tendering required) renewal of 14 years, thereby allowing for a maximum duration of 24 years. In contrast, sole Audits are allowed an initial period of 10 years with an additional extension of 10 years. This is however only in the case of positive tendering.

Different views are resulting from empirical research on the joint audit. For example, a study found that the relationship between audit fees and joint audits is positive and significant. This suggests that a joint audit comes with additional costs while at the same time its salutary effect on audit quality is not proven (Ratzinger-sakel, 2011). In a similar vein, another study found that a joint audit has no significant relationship with the independence of the auditor (Khatab, 2013). Also, other researchers discovered there was a positive relationship between audit quality and joint audits. In a study on the mandatory rotation of auditors the researcher ended up rejecting the mandatory rotation of auditors but recommended joint audits as capable of enhancing audit quality (Asian, 2012). Julia & Rudolf (2012) concluded that greater accuracy is achieved through the use of a joint audit.

Perhaps, the argument about improving audit quality should be of prime concern given the devastating effect of poor audit quality on investors and other stakeholder groups. The posture of the accounting profession that they act in the public is increasingly being assailed by researchers and others who feel aggrieved by the high rate of audit failures. For example, auditors have been openly accused of holding the public to ransom as they are not held accountable(Cousins, Mitchell, Sikka, & Willmott, 1998). The economic dependence of auditors on their clients has also been fingered as being capable of coloring the independence of the auditors and thus rendering them incapable of acting in the public interest(Dart, 2011). In some cases, auditors in both developing and developed countries have acted in a less than honest manner thus compromising their integrity (Cunningham & Harris, 2006).

In some developing countries, the situation is even more daunting given the near absence of strong institutions to checkmate erring auditors. In such countries litigation culture is low and the judicial process is often slow and tardy(Okere, Mustafa, Linde, & Rahman, 2004). Given the foibles of human nature, auditors in such climes are bound to take more liberties in indulging in unethical behaviours. For example, the Nigerian auditor has been accused of culpability in the collapse of some banks in Nigeria(Otusanya and Lauwo, 2010). Auditors have also been accused of promoting bribery and corruption in developing countries(Otusanya, Lauwo, & Hayati, 2012). The Nigerian auditor has also been accused of deliberately shielding and erring company management(Akpomi, Amesi, & Harcourt, 2009). and that some auditors accept bribes in the course of duty(Okaro & Okafor, 2015). If therefore, the joint audit will checkmate the tendency of some auditors to act unethically for fear of being exposed by their joint auditor, then it is worthwhile even if the additional cost will be involved.

In Nigeria, there is no provision in CAMA (2004) as amended for a joint audit. It was the 50th ICAN President that came out in support of the promotion of joint audits in Nigeria stating such reasons as global best practice, improved quality of the financial report, Capacity building by small accounting firms, employment and empowerment of Chartered Accountants, improvement of audit market concentration and compliance with local content Act. (Ajaegbo, 2014).

Mikko, Haapamaki, Tuuka & Niemi (2012) researched to find out the interaction between the quality of financial reporting and joint audit. The appointment of the voluntary joint audit was prevalent in Sweden at that time. They concluded that joint audit was related to both perceived and actual audit quality. The reason adduced by the researcher to carry out this study in Sweden was that, without statutory obligations, companies voluntarily employed joint auditors to examine their accounting records. They discovered and concluded that the employment of joint auditors enhances the financial statements because of users' demand for adequate and fairly reported financial information. It was also reported by Khalid, Hussein,& Ayad 2019 that Joint Audit engagement with the Big-4 or one of the Big-4 would have a significant effect on Financial reporting quality.The study is therefore based on the theory of demand for Joint Audit. This is in line with the demand of investors and other interested users of financial reporting to have good financial information that is fair to all the parties concerned.

III. Methodology

The study adopted a descriptive method of analysis. Secondary data was used and information was collected from the Annual Reports of the firms selected whose Annual Reports are up to date for the period covered by the study.
Out of 112 listed nonfinancial firms on the Nigeria Stock exchange, 50 firms were purposively selected within the period.

Discussion of results
Descriptive Analysis
Frequency Distribution of firms
The frequency distribution consists of 50 listed non-financial firms on the Nigerian stock market whose stocks were traded on Nigerian Stock Exchange from 2008 to 2018. This represents all firms with available data that were adequate to carry out the required analysis during the sample period. The frequency distribution indicates no clustering in any specific year as demonstrated in table 1. The data is a balanced panel with annual data and observation includes firms in the sample if in a year a firm has its shares traded at least once in a year and has financial data in the year. The study also shows the distribution of firms by industry as defined by Nigeria Stock Exchange.

Table 1
Distribution of Firms by Year

Year	No of firms	Percentage of sample
2008	50	100
2009	50	100
2010	50	100
2011	50	100
2012	50	100
2013	50	100

2014	50	100
2015	50	100
2016	50	100
2017	50	100
2018	50	100

Source: NSE Fact book publication 2018

Table 2 Sample breakdown by Industries

Industry	No of observation	Percentage of sample
Health Care	7	0.14
Agriculture	2	0.04
Construction	6	0.12
Consumer Goods	13	0.26
ICT	3	0.06
Industrial Goods	5	0.10
Natural Resources	2	0.04
Oil and Gas	5	0.10
Services	4	0.08
Conglomerate	3	0.06
	50	1.00

Source: NSE Fact book publication 2018

The descriptive analysis of joint audits suggests a low practice of joint audits among firms in the sample as the average figure was 0.065 which was relatively low. The minimum figure of 0.00 is an indication of low practices as some firms do not engage in the joint audit.

Table 3 Descriptive Statistics of Joint Audit

	Mean	Median	Max	Min	Std. Dev.	Skewn	Kurt
JOINT AUDIT	0.065	0.000	1.000	0.000	0.247	3.527	13.441

Author*s Computation 2020

Table 4. Audit Environment in Nigeria (JOINT AUDIT SCORE)

ACTIVITIES	RESULTS
TOTAL EXPECTED SCORE WITHIN THE PERIOD	11
SAMPLED FIRMS	50
TOTAL SCORE	35
EXPECTED TOTAL	550
Percentage Score	6.4

Author*s Computation 2020

In the examination of the presence of Joint Audits in the sample firms, it was discovered that only 6 companies were audited by Joint Auditors during the period under review. This means that the effect of Joint Auditors was not pronounced in the audit of sample firms during the period under review with joint audit percentage index score of 6.4%. The companies that engaged the services of Joint Auditor within the period came from two sectors out of the eleven sectors of listed non-financial companies on the Nigerian Stock exchange. One, Dangote Cement Plc came from the Industrial goods sector while five, Union Dicon Salt Plc, Guinness Nigeria Plc, International BreweriesPlc, Nestle Plc, and PZ Cussons Nigeria Plc came from the Consumer goods sector. It is worth noting that Dangote Cement used Joint Auditors throughout the period under study while others engaged Joint Auditors from 2013 to 2018 for 6 years.

The analysis further showed a profound impracticability of the joint audit. The index score is extremely low ranging from 0.0 to 0.17 for joint audit. The joint audit had been clearly described as part of audit characteristics and the significant roles that can be played to ensure the quality of financial reporting have been extensively discussed in the literature, particularly in the studies carried out in developed economies, Chi, Huang, Liao, & Xie (2009), Asian, O. (2012), Mikko, Haapamaki, Tuuka & Niemi (2012), Khatab, G. (2013), Ajaegbu (2014), Odia (2015)). However, the practice of joint audit seemingly appears alien to the audit environment in most developing economies, Nigeria inclusive. The analysis in table 3 showed clearly that most listed non-financial firms irrespective of their industries rarely engage in the services of joint auditor's arrangement is uncommon. However, the Joint Audit found to be prominent in other environments is rarely practiced in Nigeria as the percentage scores are considerably low.

IV. Conclusion

The study concluded that Joint Audit is alien to Nigeria's environment and has no significant influence on financial reporting quality because only 6 firms engaged the services of Joint Auditors during the period representing 6.4%. of the selected firms.

Since there was no regulation backing joint audit in Nigeria, those firms that engaged the services of joint auditors during the period under review

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