A REVIEW OF LAWS ON AUDITOR INDEPENDENCE IN NIGERIA*

Abstract

The study examined the legal framework governing the attainment of auditor independence in Nigeria. It highlighted the issues and factors affecting the attainment of auditor independence in Nigeria despite the plethora of laws and regulatory bodies that exist, all aimed at ensuring the smooth operations of auditors in the financial sector of Nigeria. This study adopted the doctrinal methodology. The doctrinal methodology was utilised based on the point that the study involved examining existing provisions of the law guiding the attainment of auditor independence in Nigeria. The study identified fundamental impediments to auditor independence in Nigeria. Familiar ties and the provision of non-audit services jeopardize auditor independence and the integrity of financial reporting. Regulatory bodies have staffing and resource constraints, resulting in ineffective implementation of laws such as the Nigerian Code of Corporate Governance (2018) and the Financial Reporting Council of Nigeria Act (2011). So far as the threats to auditor independence linger, issues lighted in the study would persist. This study recommended the adequate implementation of the laws on auditor independence in Nigeria.

Keywords: Auditor, Independence, Auditor Independence, Corruption, Threats to auditor independence

1. Introduction

Auditor independence is a pillar of the financial arm of companies as it ensures the reliability of financial reports. The importance of auditor independence is to ensure that auditors execute assigned responsibilities objectively. Auditors have a role in sustaining the trust of stakeholders such as investors and creditors in financial institutions through the scrutiny of the financial statements of the financial institution.[1]. There is an emphasis on auditor independence as part of corporate governance changes aimed at promoting financial transparency and accountability, given the failure of reputable corporations such as Cadbury Nig Plc. In Nigeria, the legal system governing auditor independence has been criticized, particularly in light of corporate failures and financial scandals that have called into doubt the efficacy of existing regulatory regimes. The Financial Reporting Council of Nigeria Act,[2] is a primary legislation that govern auditor behaviour and independence in Nigeria. The value of an auditor in preventing business fraud and financial misreporting cannot be overstated as the efficiency of this job is dependent on the auditor's ability to perform the assigned duties free of undue influence from the audited business.[3]

A prominent issue to the attainment of auditor independence in Nigeria is the uncertainty and overlap in the present legislative framework. The reason for the existence of auditors was motivated by the need to ensure conformity to established legal frameworks controlling the operating modalities of businesses, companies, and financial institutions.[4] Another issue is the interaction between auditors and their clients, especially in terms of auditor tenure and non-audit services. Auditors have long-standing ties with their clients which lead to familiarity risks that impair their impartiality, such as carrying out non-audit services to the same clients which entangles their interests and leads to conflict of interest. Auditor independence in Nigeria is plagued with weak regulatory enforcement. While the legislative structure includes penalties and sanctions for auditors who breach independence norms, these procedures are rarely enforced in practice. Regulatory authorities, such as the Financial Reporting Council of Nigeria, lack the resources and political will to enforce compliance strictly. The lack of openness and accountability in Nigeria's corporate governance frameworks affects auditor independence. Given these issues, a need arises to examine and change the legal system in Nigeria governing auditor independence. The current regulatory structure, while well-intentioned, has been ineffective in addressing the structural, economic, and political barriers to auditor independence.

2. Clarification of Terms

Auditing and Auditors: Auditing is described to be a comprehensive review of a business's financial records, including its books of accounts and vouchers.[5] Auditing ensures that the balance sheet accurately reflects the company's financial position and that the profit and loss account truthfully represents its financial performance for the given period. Auditing also requires verifying that the information provided is reliable and complete based on the records examined. Any discrepancies or areas of concern must be identified and reported. An auditor is a professional or a person duly qualified and tasked with the duty of verifying the quality and reliability of a financial report, as well as ensuring adherence to existing guidelines on the creation of the said reports.[6]

***By Louisa JAMES, PhD,** Babcock University, Ilisan Remo, Ogun State, Nigeria; Tel: 0806 713 3379; Email: jamesl@babcock.edu.ng;
***Adiele-chi EMEJURU, PhD,** Babcock University, Ilisan Remo, Ogun State, Nigeria; Tel: 08068552103; Email: emejurua@babcock.edu.ng; and
***Deborah Oyindamola OGUNJIMI, LLB,** Babcock University, Ilisan Remo, Ogun State, Nigeria; Tel: 07087978545; Email: deborahogunjimi2@gmail.com;

[1]Olagunju A, 'An Empirical Analysis of the Impact of Auditors Independence on the Credibility of Financial Statement in Nigeria' (2011) 2(3) Research Journal of Finance and Accounting <https://core.ac.uk/download/pdf/234629191.pdf> accessed 29 April 2024.

[2] Financial Reporting Council of Nigeria Act 2011.

[3] Siriyama Kanthi Herath and Tori Pradier, 'A Literature Review on Auditor Independence' (2018) 9 *The Business and Management Review* 404.

[4] Ermatov Akmaljon Akbaralievich, 'The Role of Audit in Corporate Governance' (2020) 7(8) *International Journal of Innovations in Engineering Research and Technology* 69.

[5] AO Enofe, OEC Nbgame, and OO Ediae, 'Audit Quality and Auditors Independence in Nigeria: An Empirical Evaluation' (2013) 4(11) *Research Journal of Finance and Accounting* 133.

[6] Enofe, Nbgame, and Ediae, (n 31).

Internal Auditors: An internal auditor is a professional that is directly employed by a company or an organisation that ensures legal compliance in the drafting of the financial records of that company.[7] An internal auditor is an in-house employee or staff of the company. Internal auditors have a crucial role to play in making sure that the organisation's leadership is aware of potential risks and the consequences that might arise from them. Accurate and straightforward evaluations that are supported by doable suggestions for risk reduction and process enhancement help to foster this kind of dialogue. Internal auditors enable organisational leaders to make well-informed choices and put the required measures in place to reduce possible threats and improve operational performance by proactively discussing these risks and offering solutions.[8]

External Auditors: External auditors are independent specialists engaged by the owners of a business or the board of directors to perform an objective and unbiased assessment of the company's financial statements and associated disclosures. Their role is to offer an assessment on whether the financial statements provide a fair and accurate representation of the organisation's financial status, performance, and cash flows in line with applicable laws, guidelines and regulatory requirements.[9] External auditors are more independent and objective than internal auditors, who are engaged by the organisation and report to its management and governing bodies. This independence is crucial to guaranteeing the reliability and integrity of their audit judgements since it protects them from any conflicts of interest or undue influence from management.

Auditors Independence: Auditor independence is the process of ensuring that an auditor is autonomous, free and without compromise to ensure that the duties are carried out unfettered, and without bias. This term refers to ensuring that auditors are untainted in carrying out the role of verifying the veracity of the financial records of an organisation or company.[10] Auditor independence covers several characteristics that contribute to the auditor's capacity to fulfil tasks objectively and with integrity. Auditor independence is essential and fundamental in guaranteeing audit quality.[11] Due to the corporate failures such as Enron,[12] Yakubu and Williams highlight the influence of auditor independence on audit quality, looking into a variety of elements that jeopardise independence, such as financial interests, personal and professional ties, non-audit services, and audit engagement duration.[13] Auditor independence symbolises a societal privilege that allows auditors to self-regulate while also serving the public interest.[14] Naslmosavi, Sofian and Saat submit the idea of auditor independence is incorporated in professional standards, emphasising the need of auditors maintaining a conflict-free attitude in reviewing financial records.

3. Factors Negatively Impacting the Achievement of Auditors Independence

Non- Audit Services: Tepalagul and Lin remark that 'non-audit services are perceived to be more profitable', emphasising the economic incentive for auditors to provide these services. However, this technique raises questions regarding auditor independence.[15] Quick and Schmidt,[16] along with Tepalagul and Lin,[17] contend that 'the provision of non-audit services, such as tax services, by auditors to clients creates a high tendency for them to compromise their independence.'[18]

Auditor-Client Relationship: According to Kachelmeier and Van Landuyt, a method of ensuring auditor evaluations of accounts is to minimise auditors' social bonding possibilities with their clients.[19] On one hand, Tobi notes that long-term auditor-client relationships leads to the formulation of falsified financial records.[20] On the other hand, Corbella emphasises long-term auditor-client relationships are critical for both auditing and audit quality since auditors require time to learn the client firm's processes, risks, and other procedures. This explains why audits are more difficult during the first year than in subsequent years.[21]

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[7] Osagioduwa OL and Atube EN, 'Internal Audit Roles and its Challenges in Public Sector' (2023) 9(2) *Global Journal of Accounting* <http://gja.unilag.edu.ng/article/view/2031> accessed 25 August 2024.
[8] ibid
[9] A Juma'a, *Introduction to Auditing and Assurance in Accordance with International Standards on Auditing* (1st edn, Dar Safa for Publishing and Distribution, Amman, Jordan 2012).
[10] ibid
[11] N Tepalagul and L Lin, 'Auditor Independence and Audit Quality: A Literature Review' (2015) 30(1) *Journal of Accounting, Auditing and Finance* 111.
[12] PM Healy and KG Palepu, 'The Fall of Enron' (2003) 17(2) *Journal of Economic Perspectives* 9.
[13] Rahman Y and Williams T, 'A Theoretical Approach to Auditor Independence and Audit Quality' (2020) 17 (2) Corporate Ownership and Control <https://www.virtusinterpress.org/IMG/pdf/cocv17i2art11.pdf> accessed 25 August 2024.
[14] OM Oyebisi, 'Impact of Public Sector Auditing in Promoting Accountability and Transparency in Nigeria' (2017) 22(3) *Journal of Internet Banking and Commerce* 3.
[15] Tepalagul and Lin (n 11).
[16] R Quick and F Schmidt, 'Do Audit Firm Rotation, Auditor Retention, and Joint Audits Matter? An Experimental Investigation of Bank Directors' and Institutional Investors' Perceptions' (2018) 41 *Journal of Accounting Literature* 19.
[17] Tepalagul and Lin (n 11).
[18] Quick and Schmidt (n 16).
[19] Kachelmeier SJ and Van Landuyt BW, 'Prompting the Benefit of the Doubt: The Joint Effect of Auditor-Client Social Bonds and Measurement Uncertainty on Audit Adjustments' (2016) 55(1) *Journal of Accounting Research* 977.
[20] Tobi BA, Osasrere AO, and Emmanuel U, 'Auditor's Independence and Audit Quality: A Study of Selected Deposit Money Banks in Nigeria' (2016) 5(1) *International Journal of Finance and Accounting* 17.
[21] Corbella S, 'Audit Firm Rotation, Audit Fees and Audit Quality: The Experience of Italian Public Companies' (2015) 25 *Journal of International Accounting, Auditing and Taxation* 50.

4. Theoretical Perspectives

Policeman Theory: The Policeman theory of auditing was founded by Charles F. Hickson in the early 20th century and viewed auditors as watchdogs responsible for finding and preventing fraud. [22] This idea proposes that auditors approach their work with scepticism, aggressively looking for inconsistencies and misstatements in financial data. Modern auditing, although still concerned with fraud prevention, focuses more on giving reasonable confidence about the fair presentation of financial accounts. The transition happened as firms became more complicated and transaction volumes rose, making complete fraud detection unfeasible. The policeman theory is criticized for putting too much emphasis on auditors as fraud detectors, leading to false expectations regarding their job. In line with this study the policeman theory highlights the responsibility of auditors in detecting and preventing fraud, which is linked to the importance of auditor independence in producing precise financial reports.

Theory of Inspired Confidence/Theory of Rational Expectations: Theodore Limperg proposed the Theory of Inspired Confidence, or the Theory of Rational Expectations, in 1932. This comprehensive theory examines both the demand and supply sides of audit services, presenting a full picture of the auditor's function in society. The theory holds that auditors should seek to satisfy public expectations via their job. This implies a dynamic interaction between the auditing profession and society, with auditors always adapting their techniques to meet changing public requirements and expectations.[23] Critics argue that the theory of inspired confidence/theory of rational expectations) overestimates the public's expectations of auditors. In line with this study, the theory of inspired confidence/theory of rational expectations is important for attaining sound financial reporting through auditor independence because it emphasizes the delicate balance between public trust and the auditor's duties.

4. Regulatory Bodies on Auditors' Independence, Auditing and Financial Reporting in Nigeria

Financial Reporting Council of Nigeria: This is a federal government agency established by the Financial Reporting Council of Nigeria Act, which is under the direct supervision and control of the Federal Ministry of Industry, Trade and Investment. The agency is charged with establishing and publicising accounting and financial reporting standards to be adhered to in the formulation of financial statements for and by public bodies.[24] As a regulatory organisation established by the Financial Reporting Council of Nigeria Act No. 6, 2011,[25] the Council is responsible for promoting the highest standards of financial reporting and corporate governance. The tasks include supervising the operations of financial reporting and auditing specialists, which improves the accuracy and transparency of financial statements in Nigeria. The Council has the authority to undertake quality assurance assessments of auditors and audit companies. These assessments are intended to determine if auditors follow the established standards and retain the necessary level of independence. The council has the right to impose punishment on auditors who do not achieve the specified requirements, such as fines, suspension, or even the revocation of their licence to practise. The Council aligns with various regulatory agencies and professional organisations such as the Institute of Chartered Accountants of Nigeria, which is germane for harmonising auditing standards and practices and ensuring that Nigerian auditors are held to the same standards as their international counterparts.[26]

Central Bank of Nigeria: The Central Bank of Nigeria, the apex bank in Nigeria, is another regulator which is invaluable in the regulation and oversight of financial institutions, and its involvement is vital in ensuring auditor independence in this sector. As the apex regulatory body for banks and other financial institutions, the mandate of the apex bank includes ensuring the stability and integrity of the financial system in Nigeria;[27] a feat which auditing and auditor independence aid in achieving. One of the primary tasks of the apex bank is to design and implement regulatory frameworks governing the conduct of auditors in the financial industry.[28] These frameworks are intended to match with international best practices, ensuring that the standards in Nigeria are aligned with global norms. The Central Bank of Nigeria opposes the provision of non-audit services by auditors to financial institutions as a way of upholding the independence of auditors.[29] In maintaining this stance that should exist between auditors and financial institutions, the Central Bank of Nigeria decreases the potential of conflicts of interest that could develop from an auditor's dual duty as both a service provider and an independent examination of the financial statements of the financial institution.[30] This role separation is critical for maintaining auditor impartiality and independence, as well as ensuring the transparency of the audit process. The role of the Central Bank of Nigeria includes supervision and evaluation of the auditing process in financial institutions.

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[22] Akinadewo IS, 'Policeman Theory and Contemporary Auditing in Nigeria: An Empirical Investigation of Past and Present' (2024) 12(1) *European Journal of Accounting, Auditing and Finance Research* 58.
[23] ibid
[24] Financial Reporting Council of Nigeria <https://frcnigeria.gov.ng/about-frc-2/#:~:text=The%20FRC%20is%20responsible%20for,Nigeria%3B%20and%20for%20related%20matters.> accessed 18 August 2024.
[25] Financial Reporting Council of Nigeria Act No. 6, 2011.
[26] Wilson Herbert, 'Financial Reporting Council of Nigeria and the Future of Accounting Profession in Nigeria' (2016) 5 *International Journal of Finance and Accounting* 146.
[27] Okanya OC and Paseda O, 'The Central Bank of Nigeria: History, Current Operations and Future Outlook' (2019) 3 *International Journal of Academic, Accounting, Finance and Management Research* 23.
[28] Imafidon EE, Josiah M and Agbo IS, 'Audit Independence and Financial Statements Quality in Nigeria Listed Banks' (2023) 13 *American Journal of Industrial and Business Management* 973.
[29] Mary Kehinde Salawu, 'Auditor Independence Regulations: A Case of Nigeria' (2020) 6 *Journal of Accounting, Finance and Auditing Studies* 145.
[30] ibid

Institute of Chartered Accountants of Nigeria (ICAN): The Institute of Chartered Accountants of Nigeria is commonly known as ICAN. This body guarantees that its members are up to date on current auditing regulations so as to ensure compliance and adherence.[31] The Institute is Nigeria's foremost professional accounting body, created by an Act of Parliament in 1965. Its establishment was a watershed moment in the growth of the country's accounting profession, establishing a framework for the regulation and standardisation of accounting processes.[32] Over the years, ICAN has grown into a vital organisation in Nigeria's financial landscape, playing an important role in maintaining financial reporting integrity and auditor independence. The importance of ICAN in upholding adequate auditing and financial reporting standards in Nigeria cannot be emphasised. ICAN, being the major authority in charge of certifying and regulating accountants in Nigeria, establishes the professional and ethical standards that accountants and auditors follow. These requirements are congruent with international best practices, ensuring that Nigerian accountants perform at a level comparable to their global colleagues. In enforcing these criteria, ICAN assures that audits undertaken by its members are thorough, impartial, and dependable, hence increasing the credibility of financial statements issued by Nigerian companies.[33]

5. Laws on Auditors' Independence in Nigeria

Nigeria Code of Corporate Governance 2018[34]: Principle 11.4.7.1 of the Code provides that the Board's audit committee should monitor management's processes to ensure the integrity of the Company's financial statements, compliance with all applicable legal and regulatory requirements, and assessment of the qualifications and independence of the external auditors, as well as the performance of the Company's internal audit function and the external auditors. Principle 20 of the Code provides that an external auditor is recruited to provide an independent opinion on the true and fair view of the company's financial accounts, giving shareholders security on the dependability of the financial statements.[35] This principle captures the essence of external auditors. Principle 20.4 of the Code provides that as a means of ensuring independence, the audit engagement partner should be rotated every five years. Principle 20.5 of the Code further provides that to maintain independence, there should be an appropriate cooling off time of at least three years between a partner's departure from an audit firm and his nomination to the Board of an audit client.

Financial Reporting Council of Nigeria Act 2011[36]: Under section 26(b) of the Act, it is the function of the Directorate of Auditing Practices Standards to uphold auditing practices which outlines the basic principles and essential procedures with which external auditors in Nigeria are required to adhere to.[37] Section 26(e) of the Act states that the Directorate will promote the adoption of ethical standards governing the independence, objectivity, and integrity of external auditors and those offering assurance services. Section 26(g) of the Act states that the Directorate will engage with relevant professional associations to improve public understanding of the duties and responsibilities of external auditors and assurance service providers, including research funding. Section 26(h) of the Act requires the Directorate to conduct any such duties that the Board considers necessary or expedient to guarantee the efficient performance of external auditors.[38] According to Section 50(g) of the Financial Reporting Council of Nigeria Act, one of the Directorate of Corporate Governance's responsibilities is to ensure that audit committees of public interest corporations regularly assess the scope of the audit and its cost effectiveness, as well as the auditors' independence and objectivity.[39]

6. The Importance of Auditors Independence on Audited Financial Reports

Financial statements are designed to help decision-makers evaluate a company's financial strength, profitability, and future prospects. The primary goal of generating financial statements is to give information useful in making economic decisions. As a result, the need of creating credible financial statements for investors cannot be overstated. To guarantee that those representations are trusted, financial accounts must be audited, particularly for organisations formed as limited liability corporations.[40] The management of a corporation, as nominated by the shareholders, is often held accountable for the monies used in its management through financial statements. An audit must be undertaken with quality in mind, avoiding the temptation to compromise for financial gain. This ensures excellent audit quality and rebuilds public investor trust in corporate financial reporting. The auditing process includes a thorough, independent assessment of an organisation's financial accounts. These statements, generated by the company's management, are reviewed by a skilled expert called an auditor. The auditor's function is to offer a professional opinion on whether these financial statements present an accurate and fair picture of the enterprise's

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[31] Mary Kehinde Salawu, 'Auditor Independence Regulations: A Case of Nigeria' (2020) 6(4) Journal of Accounting, Finance and Auditing Studies<https://www.google.com/url?sa=t&source=web&rct=j&opi=89978449&url=https://jafas.org/articles/2020-6-4/9_FULL_TEXT.pdf&ved=2ahUKEwjB5fmhnv2HAxUwXUEAHVIED_8QFnoECBcQBg&usg=AOvVaw2hYqkl9xnCZ3GMo_ccywh0> accessed 18 August 2024.

[32] Agbi Eniola Samuel, Muhammad Buba Mamman and Lateef Olumide Mustapha, 'Historical Development of Accounting Profession in Nigeria: Threats and Issues' (2017) *International Journal of Business and Management Review* 89.

[33] Chartered Accountants Worldwide, 'The Institute of Chartered Accountants of Nigeria (ICAN)' <https://charteredaccountantsworldwide.com/institute/institute-chartered-accountants-nigeria-ican/> accessed 20 August 2024.

[34] Nigeria Code of Corporate Governance, 2018.

[35] Nigeria Code of Corporate Governance, 2018.

[36] Financial Reporting Council of Nigeria Act, 2011.

[37] Ibid

[38] ibid

[39] Financial Reporting Council of Nigeria Act, 2011.

[40] EA Osadchy, 'Financial Statements of a Company as an Information Base for Decision-Making in a Transforming Economy' (2018) 21(2) European Research Studies Journal <https://ersj.eu/journal/1006/download/Financial+Statements+of+a+Company+as+an+Information+Base+for+Decision-Making+in+a+Transforming+Economy.pdf> accessed 5 July 2024.

financial status at the conclusion of the reporting period.[41] Reliability in audit reports means that investors and stakeholders continuously see the audit reports and judgements as trustworthy and reliable.[42] Reliable audit reports show whether accounting reports are reasonably devoid of mistake and bias, and if accountants are justified in making the 'going concern' assumption. This dependability offers investors with adequate information regarding the quality and correctness of accounting reports, which aids in investing decisions.

7. Case Studies on the Outcome of the Absence of Auditor Independence

Afribank Nigeria Plc: The 2006 Akintola Williams Deloitte (AWD) and Afribank Plc case was an important turning point in Nigerian corporate governance, exposing the complex relationship between auditor independence, regulatory guidance, and financial reporting accuracy.[43] This case, situated against the backdrop of Nigeria's changing financial industry, highlights the difficulties that even well-established audit companies confront in retaining independence and professional scepticism in a competitive economic climate.[44] AWD, being a part of the globally famous Deloitte network, had significant power and credibility in Nigeria's financial environment. The firm's role in the Afribank audit dispute sent shockwaves through the sector, calling into question the effectiveness of external audits in protecting shareholder interests and maintaining financial reporting integrity. The claims made against AWD and Afribank's board were extremely serious, implying a systemic breakdown in the audit process. The charge of financial engineering, a term for manipulative accounting methods intended to offer a more favourable financial image, hit at the core of the auditor's principal responsibility: to give an unbiased and objective examination of a company's financial statements. The financial data at the centre of the debate provide a harsh picture of Afribank's fragile situation. The claimed gross earnings of ₦16 billion, compared to a before-tax loss of ₦6.3 billion and an after-tax loss of ₦6.9 billion, indicate a corporation facing serious operating issues. Shareholder funds decreased from ₦21.4 billion to ₦17.85 billion,[45] indicating a loss of value over the reporting period. Perhaps most concerning was the accusation of misrepresenting non-performing risk assets as functioning ones. If accurate, this approach would have greatly exaggerated the quality of Afribank's loan portfolio, thereby misinforming investors and authorities about the bank's genuine financial condition.[46] The suggestion that this distortion happened with their knowledge and cooperation. AWD's strong defence of its audit, which cites Deloitte's globally recognised audit methodology, demonstrates the contradiction between standardised audit methods and the requirement for context-specific expert judgement. The firm's dependence on Central Bank of Nigeria (CBN) accreditation to validate the quality of its audit highlights the delicate connection between auditors and regulators in guaranteeing financial system stability. The ensuing investigations by the Nigerian Stock Exchange and the House Committee highlight the multifaceted nature of corporate governance monitoring in Nigeria. These enquiries, focussing on the disclosure of director-related loans and the sufficiency of bad debt reserves, touch on crucial areas of possible conflicts of interest and risk management, which are at the heart of successful corporate governance.

Cadbury Nigeria Plc: Cadbury Nigeria PLC, a major subsidiary of Cadbury Schweppes PLC, made a surprising disclosure in October 2006 that shook Nigeria's financial and corporate governance landscape. The corporation disclosed the finding of huge 'overstatements' in its financial books, which had apparently continued for several years. This information was made available to the company's shareholders, regulators, and the general public. The board responded promptly, recruiting Price Waterhouse Coopers (PwC), an independent accounting firm, to look into the problem. After completing the audit, PwC corroborated the first discovery, demonstrating that the overstatements were caused by fraudulent accounting techniques.[47] The projected financial deception varied between ₦13 billion and ₦15 billion, raising concerns about Cadbury's honesty. As a result of these fraudulent acts, Cadbury Schweppes PLC, the parent company, was forced to make a large financial provision of £15 million for the impairment of the goodwill held in relation to Cadbury Nigeria as of December 31, 2006. The disclosure harmed the company's brand, causing stockholders to lose trust and resulting in a financial disaster. However, the ramifications went beyond Cadbury Nigeria's internal operations to its long-standing external audit firm, Akintola Williams Deloitte (AWD), which had been auditing the company for more than 40 years.[48] The firm was particularly charged with several professional failings. Deloitte failed to identify Cadbury Nigeria's cumulative losses of ₦13.255 billion from 2002 to September 30, 2006. Given their long experience with the firm, having worked as auditors for over four decades, this lapse raised serious questions about the integrity of their audit process and their capacity to remain objective and vigilant. Deloitte was accused of failing to verify

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[41] O Adebayo, 'An Empirical Analysis of the Impact of Auditors Independence on the Credibility of Financial Statement in Nigeria' (2011) 2 *Research Journal of Finance and Accounting* 85.
[42] AT Babatolu, OO Aigienohuwa, and E Uniamikogbo, 'Auditor's Independence and Audit Quality: A Study of Selected Deposit Money Banks in Nigeria' (2016) 5 *International Journal of Finance and Accounting* 13.
[43] ibid 16.
[44] OO Bakre, 'The Unethical Practices of Accountants and Auditors and the Compromising Stance of Professional Bodies in the Corporate World: Evidence from Corporate Nigeria' (2007) 31 (3) Accounting Forum <https://econpapers.repec.org/article/tafaccfor/v_3a31_3ay_3a2007_3ai_3a3_3ap_3a277-303.htm> accessed 3 September 2024.
[45] Solomon Chung, 'CBN Contributed to Bank Collapse – Ex ED, Afribank' (*Daily Trust*, 29 April 2011) <https://dailytrust.com/cbn-contributed-to-bank-collapse-ex-ed-afribank/> accessed 3 September 2024.
[46] Wisdom Okere, 'Foreign Expatriates on Board and Financial Performance: A Study of Listed Deposit Money Banks in Nigeria' (2019) 5(2) *The Journal of Social Sciences Research* 418.
[47] Adenike Adewale, 'Corporate Governance: a Comparative Study of the Corporate Governance Codes of a Developing Economy with Developed Economies' (2013) 4(1) *Research Journal of Finance and Accounting* <https://www.iiste.org/Journals/index.php/RJFA/article/download/4026/4172> accessed 3 September 2024
[48] Sunday C Okaro and Gloria O Okafor, 'Drivers of Audit Failure in Nigeria: Evidence from Cadbury Nigeria PLC' (2013) 4(6) Research Journal of Finance and Accounting <https://core.ac.uk/download/pdf/234629494.pdf> accessed 3 September 2024

a ₦7.7 billion credit to the company's account in 2005, resulting in serious financial deception.[49] Furthermore, Deloitte's management was chastised for failing to act decisively when Cadbury Nigeria officials were unable to offer sufficient replies to auditors' questions in their management letters. Instead of pressing on openness and responsibility, Deloitte's auditors permitted the anomalies to continue, jeopardising the firm's professional reputation. One of the most serious claims against Deloitte was that it was involved in giving its name to a fraudulent profit prediction during Cadbury Nigeria's rights offering, further deceiving investors and shareholders.[50] The audit company was also criticised for failing to do professional due diligence during an investigation into a transaction in which a Cadbury Nigeria client issued a disclaimer. Despite this red warning, Deloitte did not follow the case with the scepticism required of an auditor. This shortcoming, along with Deloitte's inability to display professional scepticism even when weaknesses in internal control were recorded, exposed a fundamental flaw in their audit methods.[51]

8. Conclusion and Recommendations

This study investigated the meaning of auditor independence and its implications for honest financial reporting in Nigeria. Key findings show that familial links and flawed recruitment processes severely damage auditor independence by causing conflicts of interest and pressure to align reports with the preferences of related parties. These behaviours undermine the independence essential for unbiased auditing, jeopardizing the credibility of financial reporting. This study emphasised the importance of measures to promote auditor independence, including comprehensive legislation, improved execution of current rules, and reduced reliance on non-audit services. Addressing these issues is critical for restoring trust in financial reporting and sustaining long-term economic prosperity in Nigeria. This study showed that until the issues surrounding auditor independence are resolved in Nigeria, financial frauds, tainted financial reports, financial losses and winding up of companies would continue to exist.

As a means to improve auditor independence, regulatory authorities must prioritize specialized training for experts in compliance. Such training should emphasize recognizing conflicts of interest, addressing risks to auditor independence, and understanding worldwide best practices in auditing standards. Well-trained people can successfully monitor and enforce regulations, lowering the number of compromised audits. Furthermore, providing these specialists with the ability to interpret and execute a thorough legal framework assures consistency in implementation. Continuous professional development for regulatory staff is critical for adapting to changing difficulties and guaranteeing auditors' autonomy and integrity in providing trustworthy financial reporting. A comprehensive statute addressing solely auditor independence is critical for increasing the credibility of financial reporting. Existing frameworks are fragmented, requiring auditors and stakeholders to traverse complex and disparate regulations. A consolidated statute would provide clear rules for recruitment procedures, conflict-of-interest policies, and limitations on non-audit services. It would clearly specify the sanctions for infractions, guaranteeing responsibility and deterrent. Such a regulation should integrate global best practices while also addressing Nigeria's particular difficulties. This act, by providing a strong legal framework, would promote auditor independence, prevent corruption, and restore public trust in financial reporting systems.

It is crucial to ban auditors from offering non-audit services to their audit customers. Non-audit services, including consultancy, human resources, and financial advisory, generate conflicts of interest that jeopardize the neutrality essential for unbiased auditing. Auditors may become hesitant to give unfavourable reports in order to maintain profitable non-audit contracts, weakening trust in financial reporting. By eliminating such dual duties, auditors can focus only on their primary job of providing impartial assessments. To ensure this separation, regulatory agencies should impose tight guidelines, which would develop more accountability, trustworthiness, and promote transparent financial processes. Regulatory bodies can conduct routine checks on audit firms and examine the nature of relationship that exist between the said firms and their clients. It is also important to improve the application of current legal frameworks. Regulatory authorities in Nigeria are frequently under-resourced, limiting their ability to effectively enforce legislation. Addressing this issue will necessitate more money, manpower, and capacity building to provide timely and comprehensive oversight of auditor independence. Furthermore, the fragmented character of existing regulations can be simplified into a complete statute that expressly addresses auditor independence. This would provide clear instructions while eliminating ambiguities that impede enforcement. Consistent monitoring and punishments for noncompliance should also be instituted to discourage violations. Adequate implementation of laws by security agencies such as the Nigeria Police, Economic and Financial Crimes Commission in Nigeria is a major issue, which can be addressed by the government through periodic training, proper remuneration and incentives. The said security agencies can be trained on what to look out for when enforcing the legal framework on auditor independence. Same applies for other regulatory bodies such as the Central Bank of Nigeria.

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