

The Effects of Non-Audit Services on Auditor Independence in
Nigeria

MSc in Accounting and Financial Management

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CANDIDATE DECLARATION

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I certify that the dissertation submitted for the degree of **MSc in Accounting and Financial Management** is as a result of my own work and that where reference is made to the work of others, acknowledgment is given.

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DEDICATION

This research work is dedicated to God almighty for his mercies, love and protection during these hard times of Covid 19 while working on my project.

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I wish to express my gratitude and appreciation for the assistance rendered to me by several personalities during the cause of my academic pursuit and my project writing.

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ABSTRACT

This study encompasses around the effects of non-audit services on auditor independence, threats to the auditor's independence, non-audit services as a source of income for audit firms, threats to the auditors independence, factors that influences the quality of an audit, non-audit services relationship with auditor independence in Nigeria.

51 respondents successfully completed the questionnaires of which all are auditors in respectable audit firms in Nigeria, the evaluation of their views sheds more light into the objectives of the research. The findings of the research point out that self-interest which was noted as the major threat to auditor independence followed by familiarity and advocacy as intimidation and self-review were recognized as the least threats to auditor's independence in Nigeria. Provision of non-audit services also have effects on the independence of auditors, some of which includes an increase in the auditing fee (source of income), regulating the quality of auditing in Nigeria. This indicates that provision of non-audit services is a strong determinant of audit quality and the independence of auditors among Nigerian firms.

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CHAPTER 1

1. INTRODUCTION

One of the major global phenomena in the financial sector is corporate fraud. A well-known energy company named Enron corporation which is located in Houston, Texas in America was in 2001 arraigned for fraud after exaggerating profit which is in excess by \$586 million for the period of four years which led to the fall of a company that have reached a dramatic height by presenting an off the book and fake accounting to fool the regulators for a long period of time. Another company that committed corporate fraud by overstating its profit is WorldCom in 2002 in which about 3.8billion dollars were capitalized as a result of operating its expenses. A reference point for corporate fraudulent financial reporting in Nigeria is that of a British multinational confectionery company Cadbury (Nig) PLC scandal where the company was fined for false accounting between 2002 and 2005 where a monetary fine of #21.2 million (\$180,783) was placed on Cadbury by Nigeria securities and exchange commission (SEC). A fraud incidence that happened at a trading and manufacturing company Lever brothers (Nig) Plc and a commercial banking, real estate and insurance brokers company Afribank Plc based in Lagos are other forms of financial fraud incidences in Nigeria (Osaze, 2011).

In 2014 Tesco a standard supermarket in the United Kingdom(UK) changed its audit firm to Deloitte after they have been using PWC for 32 years. This change in audit firm arises as a result of the accusation of fraud leveled against the company for overstating its profit by overstating its profit by £263m after announcing a £250m profit in the first two quarters of the year (Harriet, 2014).

Organizations standard and economy of most nations are strongly affected by fraudulent financial scandals. Dent on the reputation of the organizations and financial loss are some of the effects of fraudulent financial activities. Most investors lost confidence and interest in the capital market due to the increasing rate of corporate fraud incidence in Nigeria and at a certain point in 2010, fraud at the Nigerian Stock Exchange was seen as the main factor that brought about the down turn in the market (Osaze, 2011)

For several decades few topics have been popular for investigation by researchers one of which is Non-audit services (NAS). The majority who have developed interest in Non-audit services believes that it enhances better professional and a comprehensive audit hence, improves the standard of auditor's expertise of their client. It was concluded that when Non-Audit Service is reduced it usually lowers the expertise of the auditor which leads to substandard competency and quality of the audit provided by the auditor (Maines *et al.*, 2001). More so, the more the auditors provide non-auditors services the more it improves auditor's knowledge, independence ability and ability to a correct as well as fair representation of the companies (Sikka, 2009). European commission came up with an idea to tackle the financial crisis which has led to several discussions on how to totally eradicate corporate financial fraud in the European union in 2010 by issuing a green paper. The green paper issued was aimed to assure and re-establish the trust of the investors and their financial stability by concluding in their report that in audit opinion the relevant points and activities are directed towards safeguarding and ensuring the preparation of financial statement is done in line with the standard framework for financial reporting, rather than reporting what will encourage investors to invest more in the organisation on the statement. A new framework, in which its main aim is to define and throw light on the role of statutory auditor, improves auditor's independence, provide a different and unique audit market and raise the standard of auditor's supervision was formulated from the Green Paper, with a huge amount of support from many of the inputs of stakeholders' such as investors, audit firms, public authorities and academic.

Regulators, practitioners and academics around the globe over the years have given more attention to topic auditor independence which is a result of highly publicized failure of auditing. Auditing process is dependent on the auditor's level of independence which on the long run has affected the quality of audit (Tepalagul and Lin, 2015). Legislations have been passed by so many countries to dispose of auditors rendering non-audit services along with imposing

mandatory auditor rotation. (Tepalagul and Lin, 2015) concluded that legislations that was moved by several countries have been able to reduce auditor's client relationship and have been able to reduce the effect of non-audit services which compromises the standard of audit and audit independence. The validity of the three basic principles according to the Section 201 of the Sarbanes Oxley Act of 2002 requirements which was adopted by American Securities and Exchange Commission of the prohibition of major non-audit services which includes; (i) the role of management cannot be handle by an auditor (ii) a financial statement prepared by an auditor cannot must be audited by another auditor and (iii) advocacy role cannot be given to an auditor by its client is yet to be confirmed in Nigeria and it has been confirmed that the auditor ability to be independent positively raises the affirmation of the public on the financial statement audited being trustworthy and highly reliable which can only be achieved when the auditors are viewed as self-reliant and professionals who have zero peculiar interest in these audit client by the users of the financial statement. Hence the need for this study which aim is to use Nigeria data to ascertain the factors that act as threat to auditors being independence when carrying out their functions and also to determine how this independence of the auditors in Nigeria is influenced by the outline of non-auditor's services.

1.1 AIMS AND OBJECTIVES

For a standard audit process, the auditor function is expected to be carried out without any form of impairment from the management staff of the audited company. Nonetheless, factors such as provision advisory services to the management, fear of changing of an auditor and familiarity weaken auditor's independence. A major debate on the legal function of the auditor and the other forms of services they may carry out for client have developed conflict of interest.

Non –audit services have gained much recognition due to its effect on auditors' independence. To back up the above-mentioned problem associated with non-audit services, argument that

auditor's independence is mostly affected through the nature of business between the company and auditor in the case of rendering non-audit services have always been a major discussion among many researchers (Schneider *et al.*, 2006).

Tesco scandal clearly shows that NAS rendered by the auditors to the company for the purpose of huge non-audit fees (NAF) had an impact on the tenure of auditor and this have led to giving more attention to issues related to auditor independence as well as the capability to maintain consistent clients which provide them huge sum of income (Harriet, 2014). Furthermore, auditor independence have been defined to be the ability of the external auditor to protect his integrity by providing an impartial auditing during his auditing function.

Most auditor's opinion and conclusions are strongly manipulated by the desires to maintain a cordial relationship with a client company which usually lead to the expression of doubts on the independence of external auditors to perform his task in an objective manner. Shareholders can hardly rely on external auditor's opinion when auditors independent have been tampered with. The case of the scandal between Enron and their auditor is a very good example where a non- auditor service fee of \$27million was collected compared to the audit services of \$25million (Ferdinard and Fung, 2014).

Linkage among auditor independence, quality of audit and non-audit service of the Nigerian audit market have been examined in several studies. Studies carried out by (Enofe *et al.*, 2013) believed that the audit tenure and non-audit services both have impact on the independence of auditor's

On the other hand, the amount received for an audit service have been ascertained to affect the auditor independence with (Okolie, 2014) concluding that the independence is been impaired as a direct relationship exist between audit fees and the bond between the auditor and the auditee which implies that the greater the audit fee the higher the economic bond and since the

emergence of the Enron case, stakeholders concerns have increased for some time on the issue of the effect of fees received for non-audit services and audit services on the auditor independence because of the competition between audit firm that charges little fees and institution management who may decide to influence those audit firms with more money in other to compromise their professionalism which on the long run affect the auditing firm independence.

In Nigeria, a good amount of research has been carried out to examine auditor independence and audit quality. However, research on the effects of auditor independence and challenges of arrangement of non-audit services have been limited in Nigeria. On the other hand, a good number of studies that have consider auditor independence and non-audit services has been carried out on top notch industrialized western countries on their economies. The main aim of the study is, investigating the top threats to auditor independence, ascertain these impacts of the accouterment of Non-Audit Services (NAS) on independence of these auditors and the significance of non-audit services as an influence on income for audit firms in Nigeria using data from Nigeria banks.

The main objectives of the study are highlighted below:

- Investigate the significance of non-audit services as a source of income for audit firms in Nigeria.
- Determine the major threats to auditor's independence in Nigeria.
- Ascertain the effect of non-audit services on auditor's independence in Nigeria.
- Determine how different forms of non-audit services affect auditor's independence.

This present research work intends to give more information concerning the relationship that exists amid non-audit services and auditor independence in Nigeria as very few researchers have considered the relationship between the auditor's independence and non-audit services in

the Nigeria economy.

The following are the research questions for the study:

- What is the important of provision of non-audit services as a source of income for audit firms in Nigeria?
- What are the major threats to auditor's independence in Nigeria?
- How does provision of non-audit services affect auditors' independence in Nigeria?
- In what way do different non-audit services influence auditor independence in Nigeria?

CHAPTER 2

2. LITERATURE REVIEW

NON-AUDIT SERVICES

Services offered by the auditing firms beyond audit revision for client are regarded as non-audit services which serve as a source of non-audit income. Non-audit services are explained as any form of services that is provided to an audit client which differs from consultation on professional opinion expression and financial statement examination. The study carried out by Hayes, et al. (2005) shows that non-audit services have a high ability to influence the independence of auditor when they carry out services which are different from financial statement examination and expression of professional view.

Threat for auditor's independence are mostly increased by the provision services that are beyond audit revision which can add to the risk for struggle for approved auditors with auditing firms. Services such as accounting and bookkeeping also taxation and legal services, business recovery and corporate finance and business and management consultancy are highlighted as a black list of non-audit services from the new audit framework that should not be performed by audit firms to public interest entity, to its parent undertaking and its controlled undertaking within the union (European Commission, 2010).

Audit quality according to DeAngelo (1981) was defined to be the probability of the combination of auditor observation, findings and reporting of financial statement errors. Errors and most abnormalities that were discovered during the audit are most likely to be reported by auditors with high quality auditing standards who are less ready to accept any questionable methods of accounting. The provision of non-audit services has been a major concern for a

long time and this concern has gain more popularity due to the significant rise in the methods and amounts of non-audit services rendered by auditing firms.

According to the financial reporting council(FRC), the non-audit services are any form of service that permit an audit firm to provide specialised services to an audited organization, its associate or another organization in regard of the audited institutions, apart from the audit of financial statements” (FRC, 2011).

Services such as Management Advisory Services (MAS) and compliance related services (tax and accounting services) outside the examination of financial statement provided by an auditor to a client is regarded as non-audit services. These kinds of assistance can be provided by another audit company or the current audit company. (Ye *et al.*, 2006) asserted, the standard of auditor independence has been significantly reduced by the impact of non-auditor services and length of auditor tenure. It was concluded in their study that the level of auditor independence reduces when they render non-audit services.

According to the findings from the constitutional declaration such as section 357 of the Nigerian companies and Allied Matters Act (CAMA) 1990, as modified, it was clearly stated the financial statement of companies be audited by an independent auditor for every financial year. It was believed that the role of running the business smoothly and also making and implementing internal controls, preparation of annual account is controlled by the managers CAMA (1990). According to section 358, an individual or organisation who or which provide a consultancy capacity professional advice for secretarial, tax action or management of finances is disqualified from posing as the auditor of that company. This helps to maintain auditor independent of the firm whose accounts he reports.

It has been observed that auditors in Nigeria mostly accept all services that involve an engagement letter apart from those service with zero expertise. (Awa, 2015) believed that these

forms of non-auditor service breach the existing independence rules. Due to limited number of qualified accountants and management of resources some Organisation practice the act of using the auditor to prepare and audit the financial statements at the same time.

Regulator all over the world have raised the treat about the deterioration of auditor independence which have brought about the limitation and restriction on auditors rendering Non-Audit services (NAS) to audit clients (Auditing Practices Board 2009, 2010). of Sarbanes-Oxley Act (SOX) 2002 whose main aim is to improve the standard of corporate financial report by increasing its validity and reliability was birthed from the issues of a rise in the numbers of various accounting wrongdoing that was carried out by auditors providing non audit services. Auditors are prohibited from providing any form of NAS by statutory auditors to their client according to Section 202 of the SOX act 2002. It is believed that the prohibition of auditors from rendering NAS to their client improves the standards of auditor's independence and financial reporting quality. Findings from a study carried out by Abbott, Parker and Raghunanda, (2003) shows that lower non audit services fees are paid by companies who have committees in charge of audit independent while Reiner and Bent (2009) are of the opinion that provision of non-audit professional advice services leads to an increase in the quasi rents which ends up serving as a threat to auditor independence.

AUDITOR INDEPENDENCE

For statutory audit to be carried out, there are some set out auditing standards that auditors must generally comply to. The requirement of these standards are that auditors carry out their obligation with appropriate responsibility and a purposive sound condition. The word independence is considered a complex concept and its rather complicated to define nonetheless, guidelines were provided by the European commission to monitor and measure auditor's independence; these guidelines includes non-participation of auditor decision making and also

restricting auditor from being part of the governing council. The auditor in the last three years must not have carried out audit nor have a voting right (European Commission, 2010).

Members in the European commission were given chances to state direct details for independence (European Commission, 2010). This makes it more difficult to be able to measure independence as every member states have its own conceptual interpretation on independence. (DeAngelo, 1981) was of the opinion that the ability not to be biased and not received incentives to make a standard annual report is the mostly used and accepted interpretation of independence. Auditor independence is defined as the provisional probability of making known to the public a discovered breach of contract without any form of exclusion of breach discovered during auditing. Auditor's independence is weakened when auditors are offered fees in the form of incentives which prevent them from reporting the discovered breach seal a long-lasting relationship with the client.

(FRC, 2011) defined independence as liberty from occurrences and relationships which makes it ok for a well-informed mediator to conclude that the main goal of such situation has been altered or could be altered.

Knechel and Sharma (2008) believed that the provision of non-audit services have been a disputable topic for so many years in the auditing profession and are one of the issues that have gained so much interest of debates between the regulators and the accounting profession as regards the potential threats to auditors independence. The problems that occur as a result of corporate collapse and corporate scandals are due to the absence of auditor independence in major part of the world which include the US case of Enron (Terry,1996). The collapse of Enron according to Beattie and Fearnlay (2003) was believed to significantly compromise the independence of the auditors rendering non- audit services.

2.1 THREATS TO AUDITORS INDEPENDENCE

It was believed that the opinion of auditors is to be questioned and well-studied to be sure that their opinion has not been influenced by any other factor which could serve as threat to the auditor's independence. (Krishnan *et al.*, 2005) argued that auditors most times give report which are relative to their actual opinion and when such deviations occur reasons for this could be linked to impairment of auditor's independence.

Self-possession; self-review; propagation, familiarity and coercion were all identified as the threat to independency of auditors. Brief explanation of each of the threat are explained below:

The Self-possession Threat

Occasions when a member of the audit group or a corporation gain from a financial gain in an audit client usually function as auditor's independence threat (Awa, 2015). Mostly this happens from direct or implied interest in a customer or from the fear of losing the customer. Therefore, self-interest threat is mostly created when a form of financial relationship is created through work amid the auditor and the audit client. As the amount/size of the resulting fee payable boosts the assumed threat to auditor's independence also increases, as more Non-audit services to the audit client increases, as more of the self-interest warnings. The strength of most threat whether real or perceived is mostly determined by the correlation between the amount got from the client and the summation of the auditing firm (Awa, 2015).

The Self-Review Threat

This has to do with how complex the maintenance an unbiased objective when a self-assessment procedure of their own work. Being critical towards one-self in situations where self-review or self-re-evaluation of past work is being carried out can be extremely difficult.

For example, previous audit work need to be challenged and opposed to reach the updated conclusions on audit; or when the audit client has a past director or officer as a member of the audit team (FRC, 2011). Hence, issues such as importance of the amounts involved and the strength of individuality in any judgement of the element concerned on the self-review threat must be specially attended to and given careful consideration by the auditor

The Propagation Threat

This occur when people believed that the auditor objectivity is getting compromised when client's opinion are promoted by auditors or is perceived to promoted. For example, ethical compromise cannot be avoided when a representative of the audit unit of the firm act or becomes a supporter for or opposing the audit clients position in any condition. Activity that involves confusion of roles obviously have a hand in the auditor's independence

The Familiarity Threat

Always there exists an uncertainty that the auditor objectivity might be impaired by the business atmosphere of the client when a form of strong relationship exists amongst the auditor and the audit client, its directors and employed.

the influence of client's personal quality and personality which can result into self confidence in the client should also be added to the preventive measures against over familiarity of the auditor with the audit clients. Auditors are always advised not to offer beyond advisory role and not move into providing information that will influence the management territory so as not to be exposed to the liability to become too emotional to the client's representations most times which leads to insufficient claims.

Coercion Threats

This occur when an auditor is faced with the threats of replacement in the sense that auditors are denied from giving a neutral accounting with an adequate knowledge of professionalism without doubt. Preparing the accounting reports and the financial statements are huge threats in compromising the independence.

2.2 FACTORS AFFECTING AUDIT QUALITY

Some measure of validity and reliability of the information contained in a financial statement of a firm are assessed by ensuring a proper maintenance of the quality of the financial report. Previous research works on audit quality highlighted some factors affecting the audit quality to include audit committee members financial literacy; audit committee meetings frequency; audit committee members multiple directorship; audit committee members level of independence; quality of the external auditors and external audit and independence of audit committee interaction.

2.3 AUDIT COMMITTEE MEMBERS FINANCIAL LITERACY

(Song and Windram, 2000) believed that for a proper and effective management of a company's financial reporting and control, a must possessed knowledge is a high degree of financial literacy by the audit committee. The function of an audit committee in ensuring accountability of the management involves the whole process of corporate reporting. For this reason it is very important for audit committee to be well grounded in accounting in order to have a thorough understanding of financial reporting and ensure a high level of compliance with the requirements from the regulatory body. Fraud in corporate financial reporting have been reduced by financial literacy. The Sarbanes-Oxley Act (2002) which mandated each

public listed company to always announce the presence of a financial expert in the audit committee have officially recognize the requirement.

2.4 AUDIT COMMITTEE MEETINGS FREQUENCY

Abbott, Park and Parker (2000) were of the believe that the audit committee effectiveness can be measured by the time taken by the audit committee to provide solutions to problems and issues that the company faced with the aim to improve the standard of keeping track of the company activities.

A plan for a proper monitoring system must be maintained by a more active audit committee. Audit committee that meet frequently usually have more opportunities to discuss new issues that may arise in the company on regular arises. The reflection of good governance by the frequency of audit committee activities is expected to improve the practice of oversight role and furthermore, the quality of audit.

The code of company governance state that the supply of an institutionalized discussion board encourages the auditor from outside the company to bring up possible difficult issues at a exceedingly early stage.

As a high quality exercises, audit committee assembly need to be carried out at least once in a year without the presence of an individual from the executive board. Moreover, the overall number of conferences relies upon the size of the company's operations and the company areas of interest. According to the finance committee on corporate governance, (2001) it was highlighted that in addition to the meetings carried out in response to issues that comes up during the financial year, a minimum of three or four should also be held. Despite the fact that the number of conferences may not offer a powerful monitoring mechanism, it is left out that

an audit committee with none conferences or with small variety of meetings is much less possibly to be an excellent monitor (Menon and Williams, 1994).

2.5 MULTIPLE DIRECTORSHIP OF AUDIT COMMITTEE MEMBERS

This can explained to be the wide variety of director positions occupied by members of audit committee (Shivdasani, 1993). (Song and Windram, 2000) believed that one major factor that leads to audit committee member limitations of commitment and time which most time affect their performance productivity level is the possession of multiple directorships. Members of audit committee who are occupying the post of directors of different groups have constrained time to satisfy their obligations. In a study carried out in Malaysia, it was recorded that a direct relationship exist between the multiple directorships of audit committee members and corporate social audit reporting practices and corporate performance and this suggest that audit committee with more than one directorship provides an effective tracking mechanism (Ruzaidah, R and Takiah, M.I., 2004) .

2.6 INDEPENDENCE OF AUDIT COMMITTEE

It is a necessary factor for an audit committee to make sure that management is held accountable to shareholders (Blue Committee 1999, Cadbury Committee 1992 and Treadway Commission 1987). Corporate governance code states that the bulk of audit committee members must be independent and therefore the chairman should be an independent non-executive. The role of monitoring is effectively enhanced by this and also serve as both the external and internal auditor independence reinforcing agent. It's far posited that the greater the audit committee independence the higher the level of oversight and the more likely that participants act objectively in comparing the propensity of the organisation accounting, internal control and reporting practices. This shows that independent audit committee is capable of

helping companies maintain their business continuity despite the fact that while they're confronted with financial problems, they're expected to advocate productive movement plans to mitigate the problems.

2.7 INTERACTIONS BETWEEN INDEPENDENCE OF AUDIT COMMITTEE AND EXTERNAL AUDIT

The company's internal control strength as well as the reporting quality are influenced by the external auditors through the relationship with the audit committee (Goodwin and Seow 2000). The audit committee are in charge of the appointment and dismissal of the external auditors. According to the code of corporate governance (2001) the audit committee have been given the responsibility to engage the external auditors on the nature and scope of audit before the audit starts and to review the findings of the audit afterwards. Such engagement usually yields an interaction effect between the external auditors and audit committees.

2.8 AUDIT-FIRM TENURE

A major factor that is mostly considered for a quality and effective financial reporting is the audit firm tenure because of it great important. Audit firm tenure is the period of audit-firm-client relationship as of the fiscal year end covered by the audited financial statement. According to previous research (e.g., St. Pierre and Anderson 1984; Stice 1991), audit tenure is simply defined as a situation when the same auditor has audited the financial statement of a company for two or three years. A long definition of audit tenure is when the same auditor have been auditing the financial statement of a company for nine years or more. A medium definition of audit tenure is seen as the scenario when the same auditor have been auditing a financial statement of a company for four to eight years going by the short and long term definition.

2.9 EFFECT OF AUDITOR INDEPENDENCE ON AUDIT QUALITY

Most companies in the world believed that major aspect of the company that must be considered very important are the audit scope, capital market and the quality of auditing of the company financial statement and this have been given maximum attention to by various interest group in the organisation. Since it is hard to see audit quality in practice, problem of definition have constantly come up for most research work. Among the many definitions ascribed to audit quality, one of the most used definition of audit quality is the one by (DeAngelo, 1981), which suggests that audit quality is the market assessment of the possibility during the work of auditing, the auditor two main objectives are to detect significant distortions of the financial statements or employers accounting system and also report significant distortions.

Arens, Elder, Beasley, and Fielder (2011) believed the measure of the quality of audit should be based on the level at which an audit identify and report material irregularities in financial statement, as the competence of the auditor is ascertained by the ability to detect while the reporting skills measure the auditors ethics or integrity most especially the auditors independence.

Saputra (2015) understanding of what audit quality really means was explained by linking it to an auditing that is carried out in a manner that follows the standard auditing processes that detect and report misstatement material in the financial statements which may include error or fraud based disclosure relating issues, is capable to ascertain the internal control assurance and is able to address the possible risk warnings of the effect of the detections made from the financial statement going forward. Although, the quality of the auditing can be altered if the auditors do not remain independent as their high possibility of having the irregularities being reported.

The effect of auditor independence on audit quality was reviewed by Zayol & Kukeng (2017) and it was concluded in the study that a strong relationship exists between auditor independence and audit quality. The study also shows that auditor independence is mostly threatened by client importance, non-audit services, audit tenure and client's affiliation with certified public accountant firms.

A study was carried out among seven (7) purposively selected deposit money banks in Nigeria from 2009 to 2013 by (Babatolu, A.T. *et al.*, 2016) to ascertain the effect of auditor's independence on audit quality. The findings of the study show that a positive correlation exist between audit fee, audit firm rotation and audit quality while an indirect relationship exist between audit firm tenure and audit firm tenure and audit quality.

Relationship between audit quality and auditor's independence was critically examined by (Enofe *et al.*, 2013) and it was indicated that a direct relationship exists between auditor's independence and the quality of audit which implies that auditor's independence increases the audit quality.

Effect of audit tenure which can also be used to determine auditor independence on audit quality in Nigeria was examined by Adeniyi and Mieseigha (2013) and it was revealed in the study that an indirect relationship exist between audit tenure and audit quality and this helps to improve the independence of the auditors.

2.10 NON-AUDIT SERVICES EFFECT ON AUDITOR INDEPENDENCE

Many investigations of which most of them involves a wide range of non-audit services have been carried out on auditor independence. Various perceptions have been given to

independence from both studies done prior to and after the Enron scandal which is basically explained due to the type of non-audit services offered and the duration of non-audit service relationship between the audit client and the auditor (Schneider *et al.*, 2006). In addition, it was ascertained that the absence of encourage confirmation means that non-audit services possess an impact on independence. Further investigations that have confirmed the correlates between non-audit services and auditor independence have expressed both good and bad relationship. (Schneider *et al.*, 2006) confirmed a direct correlation between auditor independence and non-audit services

NEGATIVE EFFECT

Studies done by (Quick and Warming-Rasmussen, 2015) reported a negative interrelation between non-audit services with auditor's independence. Therefore Auditor's independence was questioned by (Sikka, 2009) due to the high rate of bankruptcy experienced by most financial services which occurred due to the substandard and unqualified auditor's opinions financial services received. He opined that the major threat to auditor's independence is the large amount of non-auditor's fees derived by majority of the audit firms from the audit client.

POSITIVE OR NO EFFECT

Despite the amount of studies carried out to ascertain how non-auditor's services correlates with auditor's independence, many of them opined that no form of relationship exists between non-audit services and independence. (Kinney and Palmrose, 2004), pointed out that non-audit services often do not have influence on independence when the audit fees and the tenure of the auditor is considered in the accounting.

The quality of audits is improved by tax consultancy (Kinney and Palmrose, 2004). This point was established on the fact that the outline of non-audit services makes better the relationship and understanding of their clients, which goes ahead to an increase in the financial audit.

2.11 CORRELATION BETWEEN AUDIT SERVICES AND NON-AUDIT SERVICES

Accounting professors Abbott, Parker, Peters and Rama, in 2007 opined that 96% of public firm obtained non-audit services from the company auditing them and it was discovered that the amount of non-audit services purchased was almost doubled in size as the audit services. However, further studies show that there are even much higher rates of non-audit services to that of audit services purchased; Deloitte and Touche in 2000 received a non-audit services fee of \$50.8 million which is nine times more than the fee of \$6.6 million audit services by Delphi Automotive Systems Corporation. Pwc received a fee of \$33 million and \$8.6 million for non-audit services and audit services respectively by FleetBoston Financial Corporation. (Krishnan *et al.*, 2005) stated that more than hundred percent increase was received by KPMG for non-audit services when compared to the amount that had been paid for audit services. Study then shows that audit fees of \$4.2 million and non-audit services of \$37.5 million. External auditors in 2001 are of the view that about 1200 listed firms in America received a non-auditor's services fee (\$4 billion) which is more than twice the fee received for audit fees (\$1.6 billion). Ninety percent of the fees in total were given to the auditor for non-audit service by about 16 of the 21 listed American firm. Bigger firms are capable of offering more in non-audit services when compared to smaller companies. Hence, the ratio of audit services to non-audit services increases with the increase in the capacity of the company(Abbott *et al.*, 2007).

2.12 CONCEPTUAL FRAMEWORK

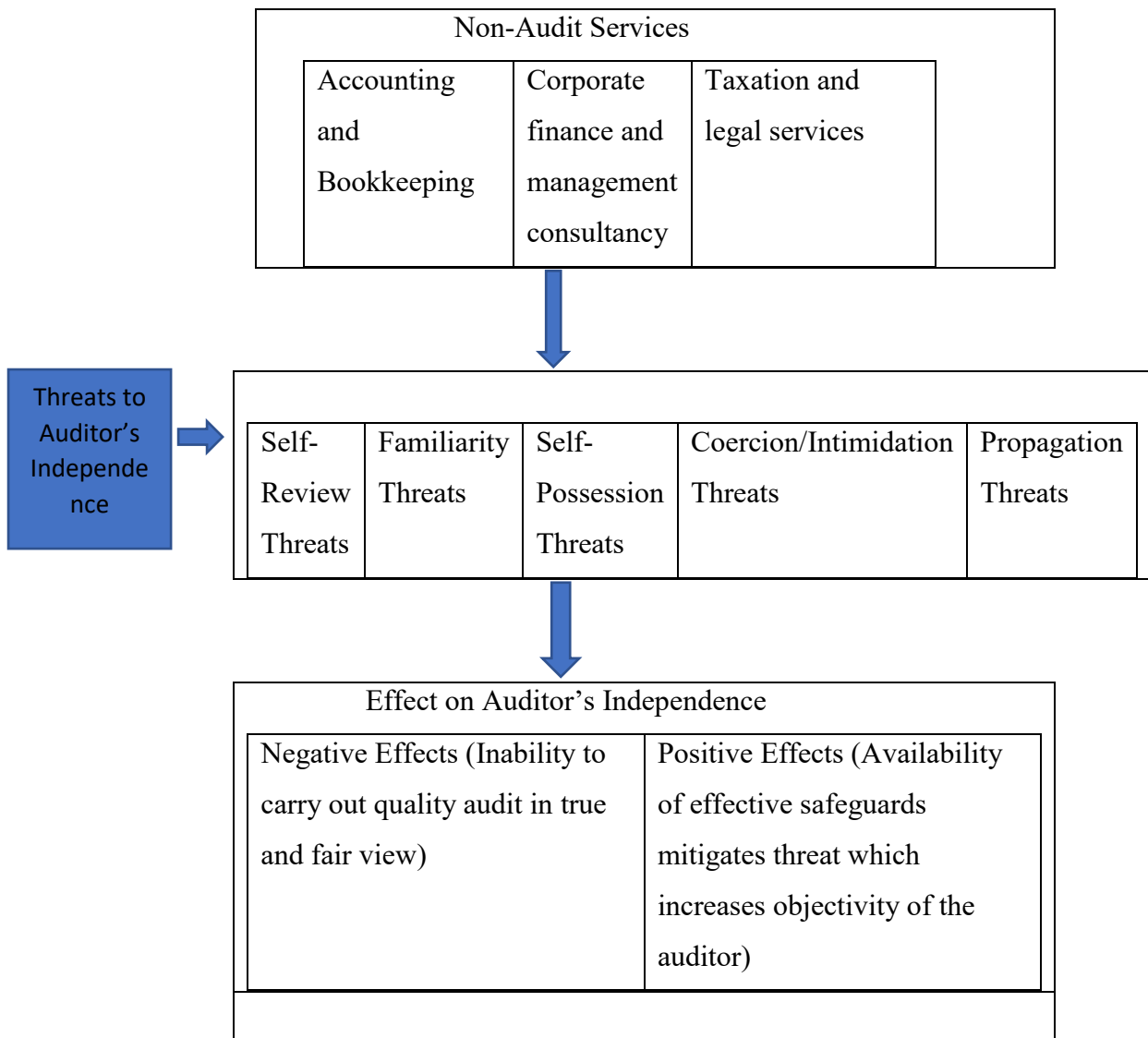
A good number of theories have been used to explain the demand of audit services and non-audit services. The common theories that have gained much recognition by the public is the policeman theory and the lending credibility theory. In the policeman theory, more attention is given to the arithmetical accuracy of the financial statement and the detection of fraud by the auditor while the lending credibility theory clearly shows that the believe of the stakeholders in the leadership of the management's is measured through the audited financial statement (Hayes *et al.*, 2006)

Among all the theories that are used to explain the demand of the relationship between audit services and non- audit services with auditor independence, agency theory is the most comprehensive theory in the audit services research context which explains both the policeman theory and the lending credibility theory in it use for auditing. The agency theory has been used by most researchers in the area of non-audit services to explain the basics of their concept (Sikka, 2009). The foundation of this research is based on the agency theory which shows that a strong agency relationship exists between two parties known as the principal and the agent in which work is been assigned to the agent by the principal.

Abstractly, (Enofe *et al.*, 2013) is of the opinion that the requirement to ease contractual relations between the audit client and stakeholder's group is the main reason for the demand of audit services. The board of directors of any organization who are totally different from the company's stakeholders are mostly in charge of the preparation of the financial statements. The agency theory arises due to the contractual conflict that comes up between the two parties as a result of the control of ownership and separation. The aspect of ownership separation and control is the major aspect of the agency theory that few researchers such as (Shleifer and Vishny, 1997) have extensively explained. Auditor's functions are not to be impaired by any parties and their opinion is meant to be independent which is a major assumption within the agency.

Based on the review of theories, academic literatures and professional practice body relating to non-audit services of audit firms and the effect on Auditor’s independence. Based on my observation and knowledge about the study and the reviews, the table below is an illustrative framework that shows the effect of non-audit services on auditor’s independence

Figure 1: Conceptual Framework



2.13 RESEARCH PARADIGM

Research paradigm explains the importance of the philosophy on the approach the research goes by and also provide basis for the choices made as regards the selection of the aims and objective for the research.

The research knowledge, research quality and the background of the research development is fully guided by the research paradigm according to (Saunders *et al.*, 2012). Hence, this study adopts a research philosophy which addresses my knowledge level about the topic been discussed.

Research philosophy have been able to help me to know how to interpret my result and also to identify the direction and approach to use with my little experience. According to (Bryman and Bell, 2011), the three categories of research philosophy that are mostly used in business research by researchers are; Ontology, epistemology and methodology. Research philosophy is a major factor researchers put into consideration when carrying out a research and its one of the necessary thing most researcher mention in their work so as to clear the researcher's objectivity which are mostly influenced by personal need and values (Bryman and Bell, 2011). These philosophies mostly used in business research are described below;

Epistemology explains how knowledge is being put together, what knowledge to be used and not to be used and how to make the knowledge acceptable by considering the knowledge recipient with regards to human behaviors and the real world. Their main focus in epistemology is based on how the social world and the natural world are to be categorized in terms of principles, procedure and ethos. Meanwhile, epistemology is described as the relationship between the source of the research knowledge i.e the research participant and the individual who needs the knowledge to make a conclusion. Epistemology is classified into two group; positivism and interpretivism.

Positivism is an aspect of epistemology that promotes the use of the natural sciences for the understanding of the social world reality and beyond (Bryman and Bell, 2011). More so, positivism is the study of social occurrences through the conclusion obtained from a tested hypothesis to be able to obtain the acceptable fact in the actual world and objectively obtain social actions.

Interpretivism on the other hand explains that a major difference exists between natural science and the social science with social reality been viewed as an event oriented which measurement are mostly achieved directly. According to Bryman and Bell (2011), emotional understanding and subjective understanding are the sources of social actions.

Ontology explains how the reality of nature is being viewed, its main focus here is on the issue grouping social entities as objective entities which is obtained from the knowledge and actions of social actors which can be categorized into objectivism and constructionism.

In conclusion, methodology explains the processes and practices used in a research. After a thorough review of the philosophes discussed above, for this research the author will be adopting the epistemological consideration of positivism since the approach consider the data obtained from observation and measurement has been valid and reliable and the author also believes it to be the most appropriate to address the objectives of this study.

The most suitable philosophy use in social sciences is positivism as it addresses more of quantitative research (Bryman and Bell, 2011). This research will contain the use of quantitative data to answer the research questions which can be used to interpret the correlates between non-audit services and auditors' independence. The respondent's perceptions, thoughts; opinion and feelings on the effect of non-auditor's services on auditor's independence will be determined through the positivism approach after which facts will be

obtained and conclusions will be made. Data will be obtained from auditors to ascertain a comprehensive opinion on the effects of non-audit services on auditor's independence.

CHAPTER 3

3.1 OVERVIEW

This chapter involves all the activities which are used to carry out a research. It involves using the research onion by (Saunders *et al.*, 2007) which gives a proper examination on the numerous activities used in carrying out a research study.

3.2 RESEARCH DESIGN

Survey research design will be used to get an accurate fact about the relationship between non-audit services and auditors independence. The choice of this research strategy was considered appropriate because it is a sociological investigation method which facilitates a comprehensive and detailed view of the main objectives raised by adopting questions based through statistical surveys to gather data about the view and action taken by people. Survey research design provides information's which can be used to ascertain the possible relationship that exist between two variables (Saunders *et al.*, 2012). To have a comprehensive knowledge and various views about the research problem statement a comparative study will be used.

The financial service sector will be used for this research with main focus on the banking sector as different selected banks professional's opinions will be compared to get fact about the relationship that exist between non-auditor services and auditor's independence. Respondents that will be considered for this study will be mainly from Lagos state as this will be seen as a good representative of the larger respondents group which is in accordance to the view of where it was concluded that the ultimate validity of a sample design is how well the attribute of the population is represented. Facts will be obtained from various sources such as questionnaires, in-depth interview, and observation which will be seen as a major advantage of the research design.

Methods for collecting and sources of data

Techniques used for data collection during research work can be classified into primary and secondary techniques according to (Saunders *et al.*, 2012). Primary data collection technique is carried out by the researcher through the use of questionnaire, interview or observation for the purpose of answering research questions and hypothesis to draw a possible conclusion, while secondary data technique occur when the researcher make use of an existing data which has already been collected by another researcher or someone else for a different reason entirely.

Primary data technique with a quantitative method approach which will involve the administration of questionnaire and an in-depth interview will be used for this research. Both the internal and external auditors of the selected banks will be used for this study as information about the effect of non-audit services will be obtained from the internal auditors through the use of questionnaire

Which will be constructed using a five-point linear numeric scale while in-depth interview will be use for the external auditors of the selected banks. Zoom a modern video communication platform will be used to conduct the in-depth interviews and electronic mails will be use to administer the questionnaire to the auditors as a result of the covid-19 pandemic situation.

Posture and gestures of the respondents during interview session is very important to provide absolute and accurate information from the respondents on the questions asked.

The current pandemic situation in the world have restrict accessibility to people and so many activities, hence, the questionnaire will be administered through the use of electronic mails to the internal auditors and it will contain open-ended questions.

Delay in feedback from the respondents is a major limitation that comes with the method of data collection that will be used for this study, but respondents will be given a date as deadline to complete the questionnaire which will take care of the presumed delay from the respondents.

Five commercial banks which include Zenith bank, Guaranty trust bank, first bank, Ecobank

and Wema bank internal auditors with their respective external auditors will be used for data collection. In-depth interview will be conducted with selected resident's auditors assigned to some bank branches.

Access and research ethics issues

The researcher has siblings and friends who are key staffs of the selected banks, the researcher will make use of his network to access and gather data from the respondents in the selected banks. The main aim of selecting banks where the researcher has an established connection is to ease the level of access to the external audit firm of the banks through the key staffs. The access to information from the selected banks auditors and external auditors is made easy through the use of the connections. A note will be attached to the questionnaire clearly stating the confidentiality, objectives of the survey and the time it will take them to complete the survey. The note will inform the respondents that the study is an academic exercise, and the results will be used and kept as such.

The participants will further be assured that none of their personal information will be available to a third party.

Nature of Data

Internal auditors of the bank and their external auditors will help provide information for this study

The researcher's main aim for this study is to investigate the major threats to auditor independence, ascertain the impact of the provision of Non-Audit Services (NAS) on auditor independence and the importance of non-audit services as a source of income for audit firms in Nigeria using data from Nigeria banks. The following are the research questions:

- What is the important of provision of non-audit services as a source of income for audit

firms in Nigeria?

- What are the major threats to auditor's independence in Nigeria?
- How does provision of non-audit services affect auditors' independence in Nigeria?
- In what way do different non-audit services affect auditor independence in Nigeria?

Furthermore, to put the validity and reliability of the data that will be obtained in check against any possible error, the posture, gestures, confidence, body language, and voice tone of the respondents will be well monitored by the researcher during the in-depth interview by being very observant.

Analysis technique

Statistical package for social science version 20 will be used for the analysis of the data that will be obtained from the respondents. Descriptive statistics such as mean, frequency and percentage will be computed for all the variables of the study while Chi square will be used to test the research hypothesis variable. The statistical significant association will be taken at 95% confidence interval.

Chi square is a test in which it measures how a model is actually compared to data that is observed. The data used here is usually raw, random and mutually exclusive also taken from independent variables.

Potential outcome of the research

The financial service sector of Nigeria will benefit greatly from the outcome of this study most especially the banking sector as regards the importance of the relationship between non-auditor's services and auditor's independence. Also, the study will improve most investors' confidence and interest in the capital market with comprehensive facts and conclusion that will be made on the relationship between non-audit services and auditors independence which helps

to understand the rate of corporate fraud incidence in Nigeria better.

Standard auditor's expertise will also be improved by the information's that will provided at the end of this research as majority have believed that non-audit services leads to a more professional and efficient audit.

CHAPTER 4

PRESENTATION AND DISCUSSION OF RESEARCH FINDINGS

4.1 INTRODUCTION

This chapter aims to examine the research questions and test the research hypothesis as enumerated in the chapter one of this study. However, the research questions are highlighted below:

- What are the major threats to auditor's independence in Nigeria?
- Do Auditors efficiently maintain their independence while providing non-audit services to their client?
- In what way do different non-audit services affect auditor independence in Nigeria?
- Does the provision of Non-Audit Services significantly has effect on Auditors independence?

This chapter further presents the summary of the survey results.

4.2 SUMMARY OF THE QUESTIONNAIRE RESULTS

Question 1: The gender of the respondents

The first question was designed to identified the gender of the respondents and 27(52.9%) are male while the remaining 24(47.1%) are made up of Female hence the total population is well distributed among the male and female respondents. See table 4.1 and Figure 4.1 below for and charts below

Table 1: Gender of the respondents

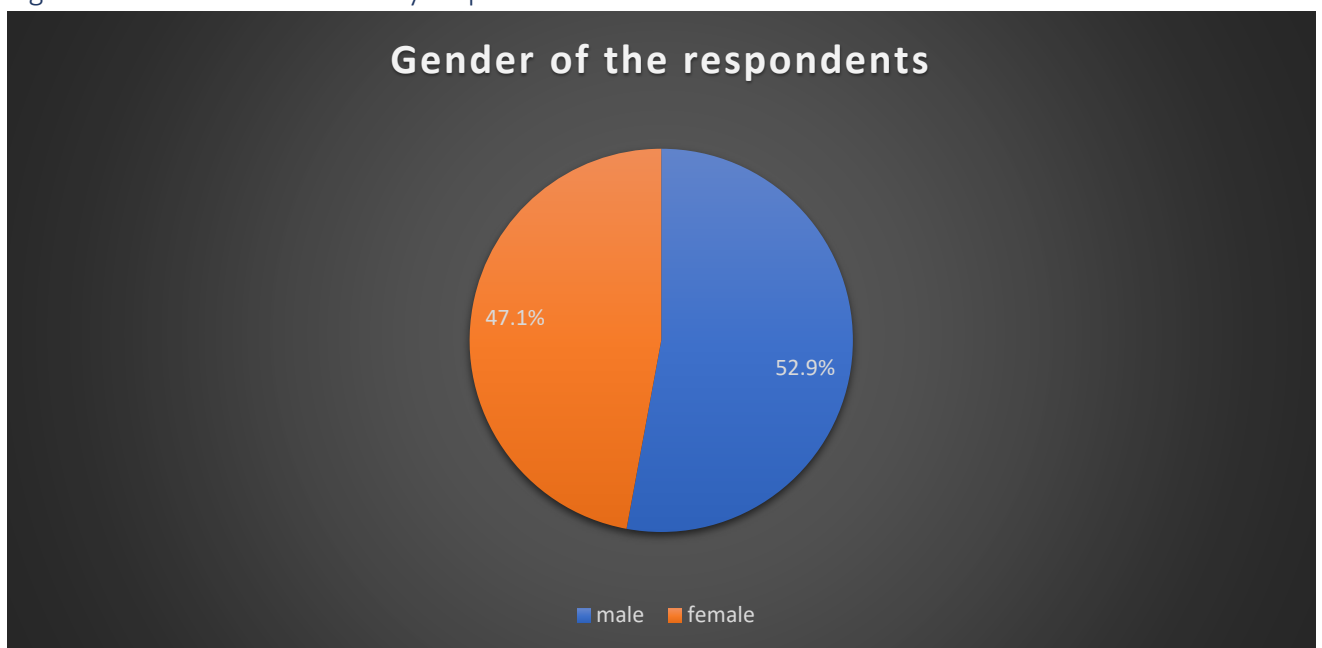
	Frequency	Percent	Cumulative Percent
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Valid	MALE	27	52.9	52.9
	FEMALE	24	47.1	100.0
	Total	51	100.0	

Source: Field work 2020

The figure 4.1 below shows the pictorial view of the distribution of the respondents into their different gender categories and the picture clearly shows that both the male and female are significantly represented.

Figure 4.1: Gender of the survey respondents



source: field work 2020.

Question 2: The Age distribution of the respondents that participated in the survey

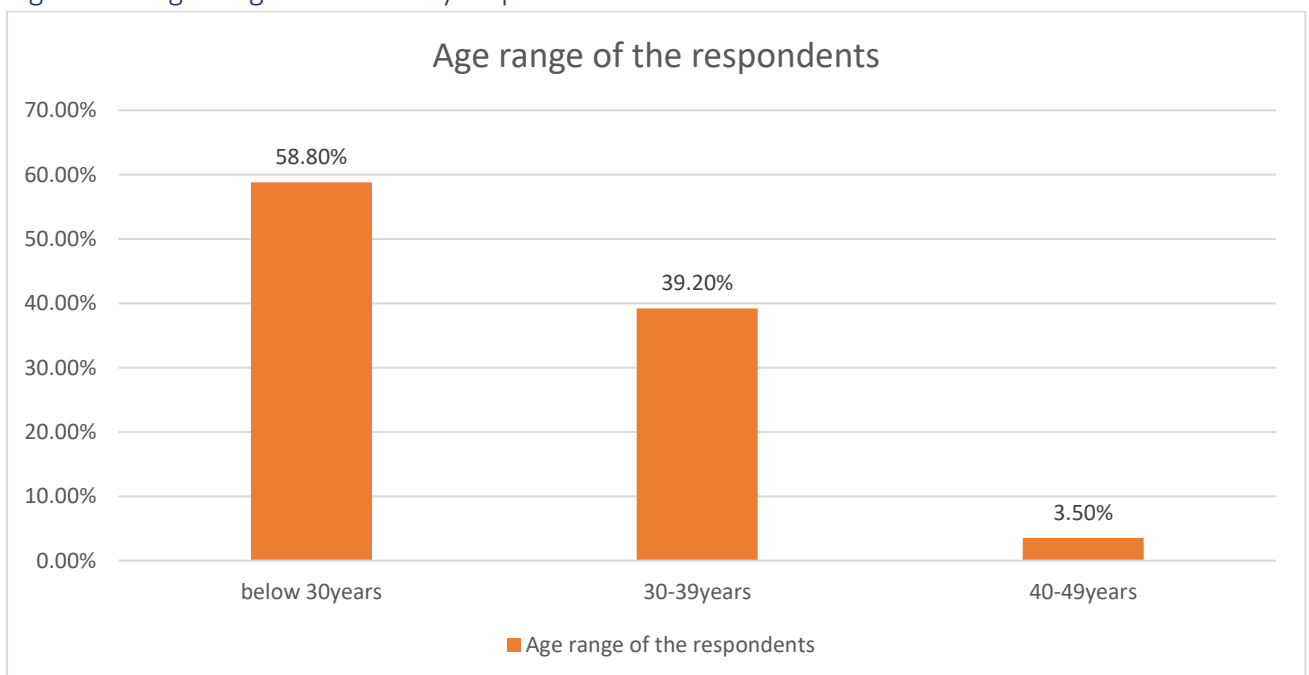
The large bulk of the participants came from the age below 30 years (58.8%) group followed by 39.2% of the total attributed to the “30-39”. The remaining percentages of the respondents are made up of 2% (1) of age “40-49 group.

Table 4.2: Age range of the survey respondents

		Frequency	Percent	Cumulative Percent
Valid	BELOW 30YEARS	30	58.8	58.8
	30-39YEARS	20	39.2	98.0
	40-49YEARS	1	2.0	100.0
	Total	51	100.0	

Source: Field work 2020

Figure 4.2: Age range of the survey respondents



source: field work 2020.

Question 3: The Marital status of the respondents that participated in the survey

Data in table 4.3 below shows that majority of the respondents are single with 84.3% while the remaining 15.7% of the respondents are married.

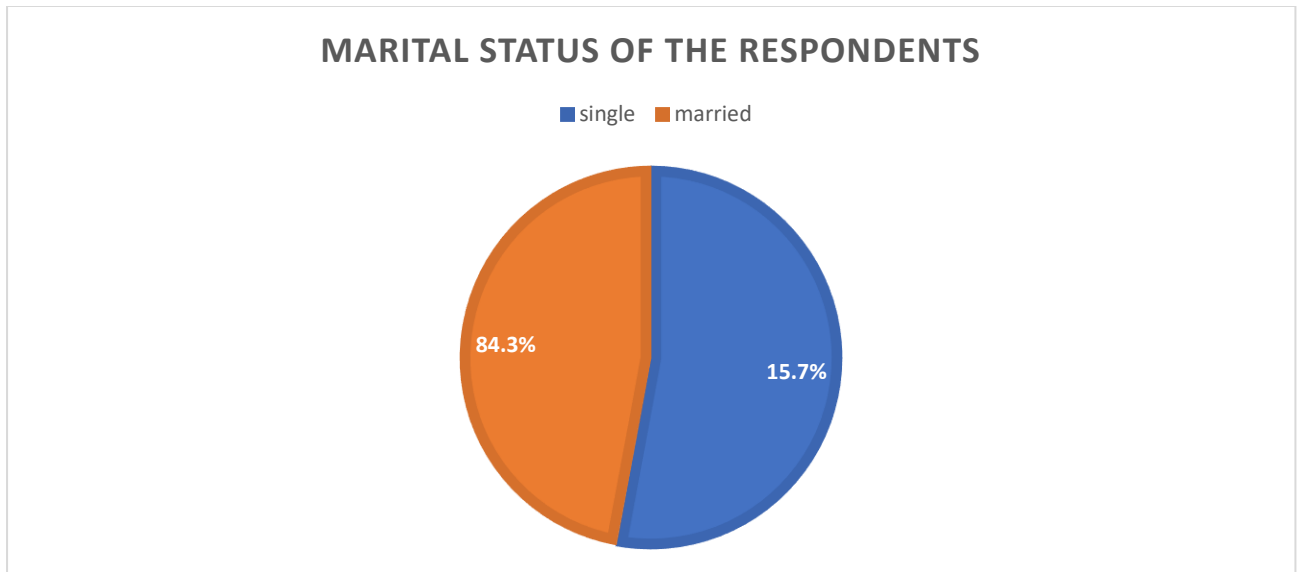
Table 4.3: Marital status of the survey respondents

	Frequency	Percent	Cumulative Percent
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Valid	SINGLE	43	84.3	84.3
	MARRIED	8	15.7	100.0
	Total	51	100.0	

Source: Field work 2020

Figure 4.3: Marital status of the survey respondents



source: field work 2020.

Question 4: Highest level of education attained by the respondents that participated in the survey

Result in table 4.4 shows that Majority 52.9% (27) of the respondents had post-graduate degree in terms of educational attainment while 37.3% (19) of the respondents attained HND/B.Sc. and only 5(9.8%) respondent had NCE/OND as at the time of this study. The data shows that respondents used for the study are qualified professionals in the field of financial auditing.

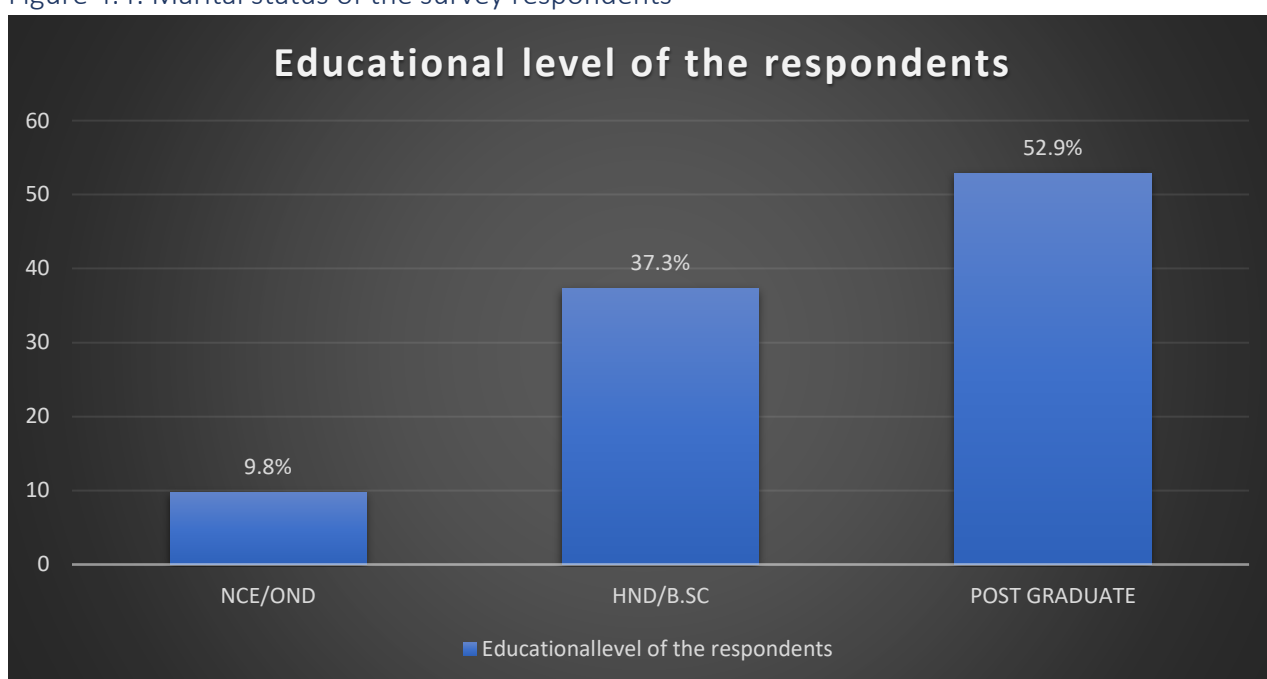
Table 4.4: Education level of the survey respondents

		Frequency	Percent	Cumulative Percent
Valid	NCE/OND	5	9.8	9.8
	HND/B.SC	19	37.3	47.1

	POST GRADUATE	27	52.9	100.0
	Total	51	100.0	

Source: *Field work 2020*

Figure 4.4: Marital status of the survey respondents



source: *field work 2020.*

Question 5: Survey respondent's years of working with the company

Data in table 4.5 shows that 82.4% of the total respondents have worked with their company for less than 5 years while 9.8% of the respondents have worked with their company for 10-19 years and the remaining 7.8% of the total respondents have worked with their organisation for 10-19 years.

Table 4.5: Respondents years of working with the company

		Frequency	Percent	Cumulative Percent
Valid	LESS THAN 5YEARS	42	82.4	82.4

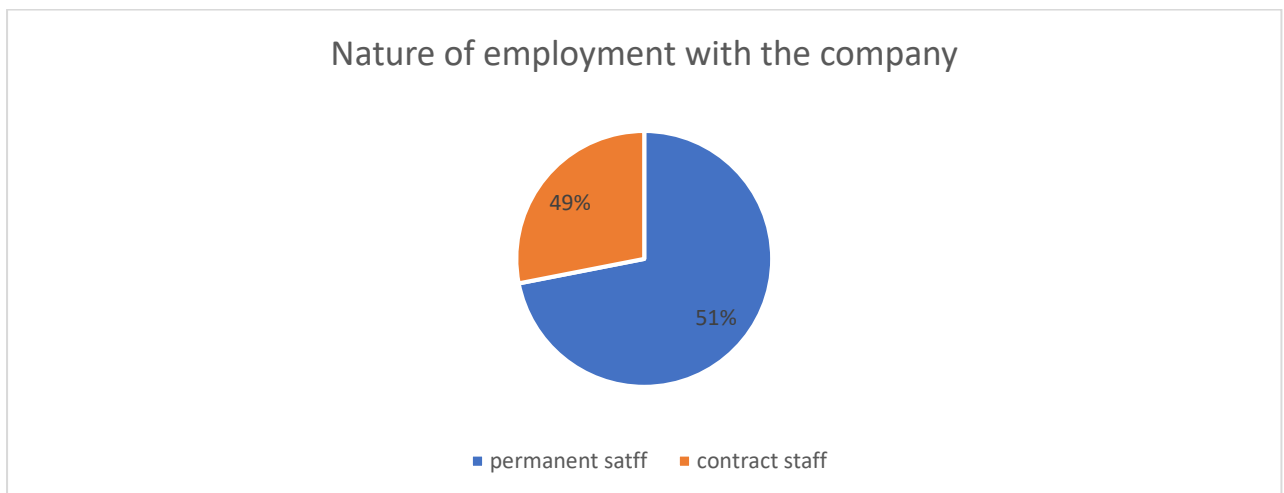
	5-9YEARS	5	9.8	92.2
	10-19YEARS	4	7.8	100.0
	Total	51	100.0	

Source: *Field work 2020*

Question 6: Survey respondent’s nature of employment with the company

Data in figure 4.5 below shows that the respondents are well distributed between the permanent staff and the contract staff with 49% of the respondents being permanent staffs and the remaining 51% of the respondents.

Figure 4.5: Nature of employment of the survey respondents



source: *field work 2020.*

Question 7: Auditors efficiently maintain their independence while providing non-audit services to their client

Results in table 4.6 below shows that 13.7% of the total respondents believed that auditors does not efficiently maintain their independence while providing non audit services to their client. 23.5% of the respondents are neutral to the statement while the remaining 62.7% of the respondents which represents the majority agreed that auditors efficiently maintain their independence while providing non-audit services to their client. This result shows that majority of the auditors try as much as possible to work in line with their profession code of conducts.

Table 4.6: Auditors efficiently maintain their independence while providing non-audit services to their client.

		Frequency	Percent	Cumulative Percent
Valid	STRONGLY DISAGREE	5	9.8	9.8
	DISAGREE	2	3.9	13.7
	NEUTRAL	12	23.5	37.3
	AGREE	27	52.9	90.2
	STRONGLY AGREE	5	9.8	100.0
	Total	51	100.0	

Source: Field work 2020

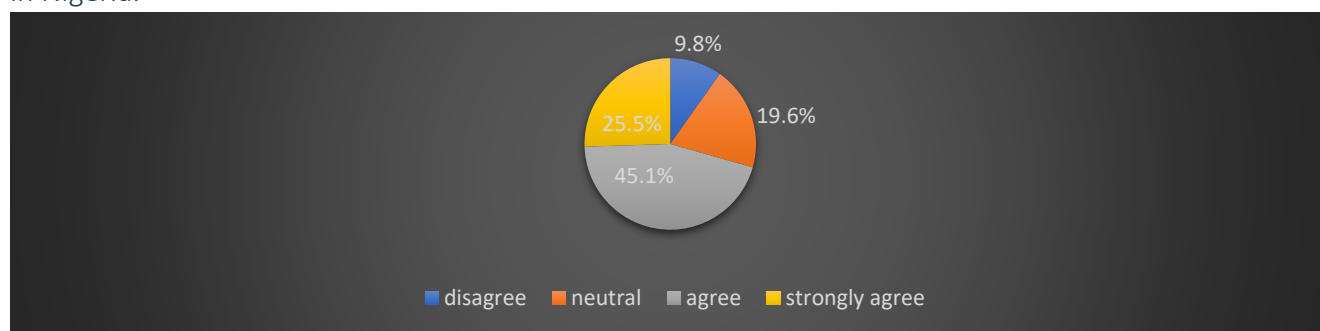
Question 8: Provision of non- audit services serve as a major source of income for audit firms in Nigeria.

Data in table 4.7 and figure 4.6 below shows that 45.1% of the respondents agreed that provision of non- audit services serve as a major source of income for audit firms in Nigeria while 25.5% of the total respondents strongly agree that provision of non-audit services serve as a major source of income for audit firms in Nigeria, 19.6% of the respondents are neutral to the statement and the remaining 9.8% disagree with the statement that provision of non-audit services serve as a major source of income for audit firms in Nigeria. In conclusion, provision of non-audit services serve as a major source of income for audit firms in Nigeria.

Table 4.7: Provision of non- audit services serve as a major source of income for audit firms in Nigeria.

		Frequency	Percent	Cumulative Percent
Valid	DISAGREE	5	9.8	9.8
	NEUTRAL	10	19.6	29.4
	AGREE	23	45.1	74.5
	STRONGLY AGREE	13	25.5	100.0
	Total	51	100.0	

Figure 4.6: Provision of non- audit services serve as a major source of income for audit firms in Nigeria.



Source: Field work 2020

Question 8: Non-audit service as a source of income for audit firms influences the quality of audit in Nigeria.

Result in table 4.8 below shows that 33.3% of the total respondents agreed that non-audit service as a source of income for audit firms influences the quality of audit in Nigeria, 13.7% of the respondents strongly agree to the statement while 45.1% of the respondents have a neutral opinion about the statement and the remaining 7.8% of the total respondents believed that non-audit service as a source of income for audit firms does not influences the quality of audit in Nigeria. The result above implies that non-audit service as a source of income influences the quality of audit in Nigeria.

Table 4.8: Non-audit service as a source of income for audit firms influences the quality of audit in Nigeria.

		Frequency	Percent	Cumulative Percent
Valid	DISAGREE	4	7.8	7.8
	NEUTRAL	23	45.1	52.9
	AGREE	17	33.3	86.3
	STRONGLY AGREE	7	13.7	100.0
	Total	51	100.0	

Question 9: Integrity and ethical behavior are effectively communicated from management to all staffs of the audit firm helps promote auditors independence when providing non-audit services.

Data in figure 4.7 below shows that 52.9% of the total respondents are of the opinion that Integrity and ethical behaviour are effectively communicated from management to all staffs of the audit firm and this helps promote auditors independence when providing non-audit services, 21.6% of the total respondents strongly agree with the statement while 21.6% have a neutral opinion about the statement and the remaining 3.9% of the respondents disagree that integrity and ethical behaviour are not effectively communicated from management to all staffs of the audit firm and this does not help promote auditors independence when providing non-audit services. In conclusion, Integrity and ethical behaviour which are effectively communicated from management to all staffs of the audit firm helps promote auditors independence when providing non-audit services

Figure 4.7: Integrity and ethical behaviour are effectively communicated from management to all staffs of the audit firm helps promote auditors independence when providing non-audit services.



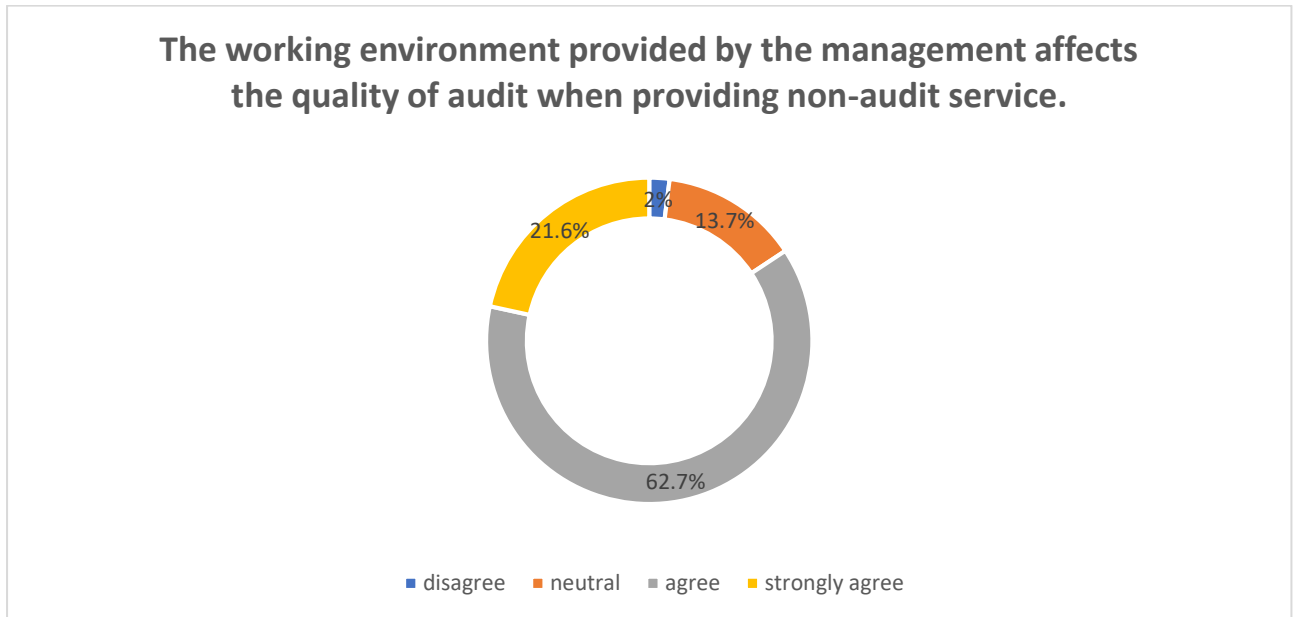
Source: Field work 2020

Question 10: The working environment provided by the management affects the quality of audit when providing non-audit service.

Result in figure 4.8 below shows that about 84.3% of the total respondents agreed that the working environment provided by the management affects the quality of audit when providing non-audit service while 13.7% of the total respondents are neutral to the statement and the

remaining 2% of the respondents disagree that the working environment provided by the management affects the quality of audit when providing non-audit service. The result above implies that the working environment provided by the management affects the quality of audit when providing non-audit service.

Figure 4.8: The working environment provided by the management affects the quality of audit when providing non-audit service.



Source: Field work 2020

Question 12: The effect of provision of non-audit services on the independence of the auditors in Nigeria is negative

Table 4.9: The effect of provision of non-audit services on the independence of the auditors in Nigeria is negative

		Frequency	Percent	Cumulative Percent
Valid	DISAGREE	4	7.8	7.8
	NEUTRAL	28	54.9	62.7
	AGREE	15	29.4	92.2
	STRONGLY AGREE	4	7.8	100.0
	Total	51	100.0	

Source: Field work 2020

The result above in table 4.9 shows that majority of the total respondents have a neutral opinion on the statement that the effect of provision of non-audit services on the independence of the

auditors in Nigeria is negative , 29.4% agreed that the effect of provision of non-audit services on the independence of the auditors in Nigeria is negative while 7.8% of the respondents strongly believe that provision of non-audit services have a negative effect on the independence of auditors and the remaining 7.8% of the total respondents are of the view that the provision of non-audit services does not have a negative effect on the independence of the auditors in Nigeria. Hence, provision of non-audit services have a negative effect on the independence of the auditors in Nigeria.

Question 13: Provision of non-audit services impairs the independence of the auditor

Data in table 4.10 below shows that 51% of the total respondents agreed that the provision of non-audit services impairs the independence of auditors while 31.4% of total respondents are neutral to the statement and the remaining 17.6% of the respondents disagree that the provision of non-audit services does not impair the independence of the auditor. In conclusion the provision of non-audit services impairs the independence of the auditors.

Table 4.10: Provision of non-audit services impairs the independence of the auditor

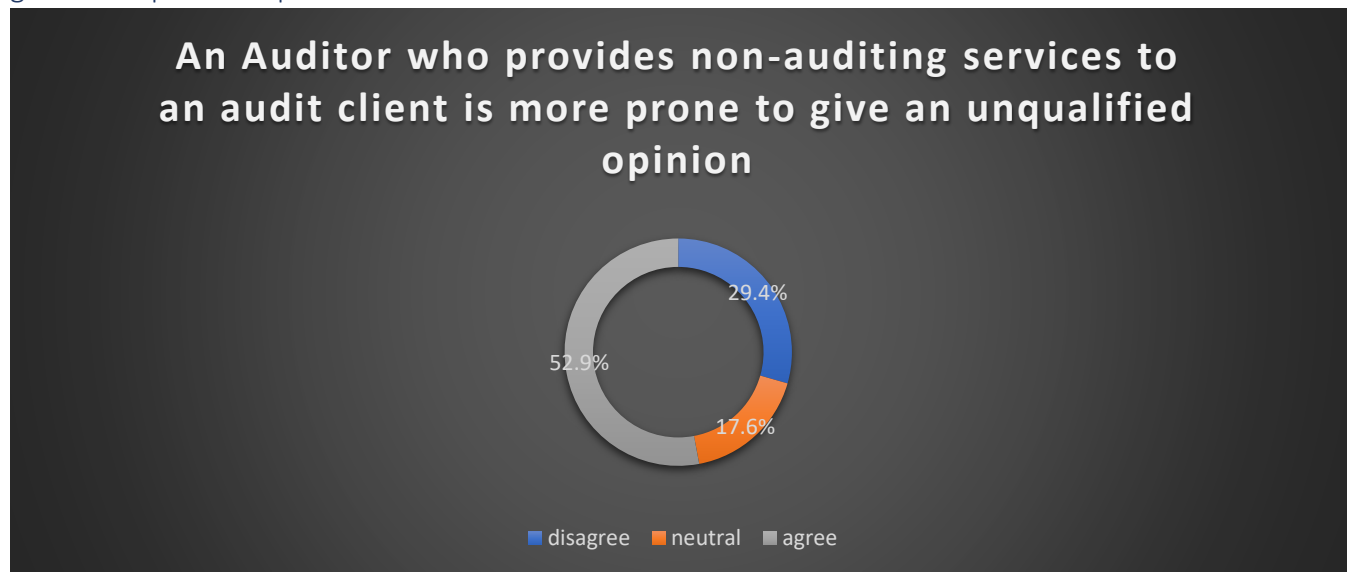
		Frequency	Percent	Cumulative Percent
Valid	DISAGREE	9	17.6	17.6
	NEUTRAL	16	31.4	49.0
	AGREE	18	35.3	84.3
	STRONGLY AGREE	8	15.7	100.0
	Total	51	100.0	

Source: Field work 2020

Question 14: An Auditor who provides non-auditing services to an audit client is more prone to give an unqualified opinion.

The figure 4.9 below shows that an auditor who provides non-auditing services to an audit client is more prone to give an unqualified opinion as majority of the respondents of about 52.9% agreed to the statement that an auditor who provides non-auditing services to an audit client is more prone to give an unqualified opinion while 17.6% of the total respondents are neutral to the statement and remaining 29.4% of the respondents disagree that an auditor who provides non-auditing services to an audit client is more prone to give an unqualified opinion.

Figure 4.9: An Auditor who provides non-auditing services to an audit client is more prone to give an unqualified opinion.



Source: Field work 2020

Question 15: Combining audit services with provision of non-audit services creates an image problem for the profession.

Data in the table 4.11 below shows that about 51% of the total respondents both strongly agree and agreed that combination of audit services with provision of non-audit services creates an image problem for the profession while 19.6% of the respondents have a neutral view to the statement and the remaining 29.4% of the respondents disagree that combination of audit services with provision of non-audit services creates an image problem for the profession.. Hence, Combining of audit services with provision of non-audit services creates an image problem for the profession.

Table 4.11: Combining audit services with provision of non-audit services creates an image problem for the profession.

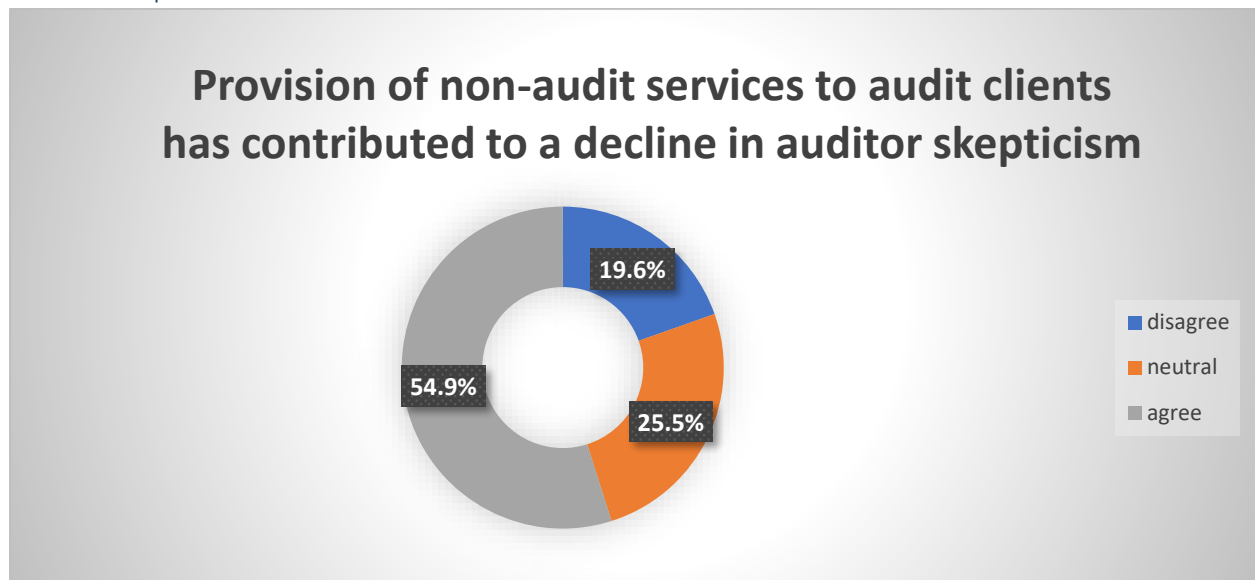
		Frequency	Percent	Cumulative Percent
Valid	DISAGREE	15	29.4	29.4
	NEUTRAL	10	19.6	49.0
	AGREE	16	31.4	80.4
	STRONGLY AGREE	10	19.6	100.0
	Total	51	100.0	

Source: Field work 202

Question 16: Provision of non-audit services to audit clients has contributed to a decline in auditor skepticism

Data in figure 4.10 below shows that the provision of non-audit services to audit client has contributed to a decline in auditor skepticism as majority of the respondents agreed that the provision of non-audit services to audit clients has contributed to a decline in auditor skepticism while 25.5% of the total respondents are neutral to the statement and the remaining 19.6% of the total respondent disagree that provision of non-audit services to audit clients has contributed to a decline in auditor skepticism.

Figure 4.10: Provision of non-audit services to audit clients has contributed to a decline in auditor skepticism



Source: Field work 202

Question 17: There should be outright ban on accounting firms providing consulting and other services to their audit clients

A concise look at the result in table 4.12 below shows that 49% of the total respondents believed that there should not be an outright ban on accounting firms providing consulting while 27.5% of the total respondents have a neutral opinion about the statement and the remaining 23.5% of the total respondents agreed that there should be an outright ban on accounting firms providing consulting and other services to their audit clients. In conclusion, accounting firms should be allowed to carry out consulting and other services to their audit clients without allowing this services to interfere with their independence.

Table 4.12: There should be outright ban on accounting firms providing consulting and other services to their audit clients

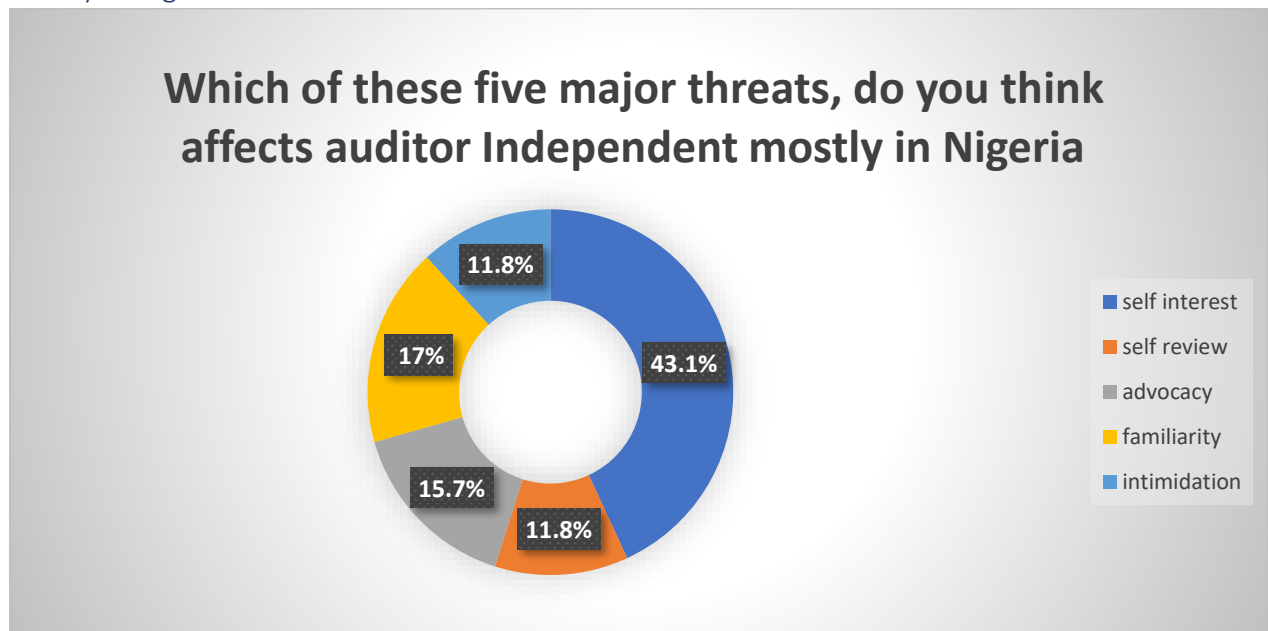
		Frequenc y	Percent	Cumulative Percent
Valid	STRONGLY DISAGREE	3	5.9	5.9
	DISAGREE	22	43.1	49.0
	NEUTRAL	14	27.5	76.5
	AGREE	9	17.6	94.1
	STRONGLY AGREE	3	5.9	100.0
	Total	51	100.0	

Source: Field work 2020

Question 18: Which of these five major threats, do you think affects auditor Independent mostly in Nigeria.

A concise review of the data below in figure 4.11 shows that about 43.1% of the total respondents agreed that self-interest is the major threats that affect auditor independence while 17% of the respondents opined that familiarity is the major threats to auditor independence while 15.7% of the respondents are of the opinion that advocacy is the major threat to auditor independence. Furthermore, 11.8% of the respondents opined that intimidation is the major threat to auditor independence and also the remaining 11.8% of the respondents agreed self-review is the major threat to auditor independence in Nigeria.in conclusion, data in figure 4.11 shows that self-interest is the major threat to auditor’s independence in Nigeria.

Figure 4.11: Which of these five major threats, do you think affects auditor Independent mostly in Nigeria



Source: Field work 2020

4.3 ANALYSIS FOR THE RESEARCH QUESTIONS

R1: What are the major threats to auditor’s independence in Nigeria?

According to the result obtained from figure 4.11 the major threats to auditors independence highlighted in the study includes self-interest which was noted as the major threat to auditor independence followed by familiarity and advocacy as intimidation and self-review were recognized as the least threats to auditors independence in Nigeria. The result above is similar to of Awa (2015) where it was reported that self –possession threat was reported as the major threat that affect auditors independence in Nigeria while other threats such as familiarity, coercion and self-review were also highlighted as threats that impairs auditors independence in Nigeria.

R2: Do Auditors efficiently maintain their independence while providing non-audit services to their client?

A concise review of the result from table 4.6 shows that auditors efficiently maintain their independence while providing non-audit services to their client as majority of the respondents agreed that auditors efficiently comply with generally accepted auditing standards when reviewing the financial statement of most organizations with an independent opinion while providing non-audit services to their client.

R3: In what way do different non-audit services affect auditor independence in Nigeria?

Provision of non-audit services by auditor for many years have been noted as a controversial topic in the auditing profession and this have generate an important debates between the regulators and the accounting profession regarding the potential threats it poses to auditor's independence Knechel and Sharma (2008) . Non-audit services have affected auditor independence in so many ways and according to the findings from the result above, some of its effect includes:

- Causes increases in the auditing fee as the provision of non-audit services serve as a major source of income for audit firms in Nigeria (table 4.7).
- The provision of non-audit service as a source of income influences the quality of audit in Nigeria (table 4.8).
- Provision of non-audit services have a negative effect on the independence of the auditors in Nigeria (table 4.9).
- Provision of non-audit services impairs the independence of the auditors (table 4.10).
- Auditors who provides non-auditing services to an audit client is more prone to give an unqualified opinion (fig 4.9).
- Combining of audit services with provision of non-audit services creates an image problem for the profession (table 4.11).
- Provision of non-audit services to audit client has contributed to a decline in auditor

skepticism (fig 4.10)

4.4 TESTING OF THE RESEARCH HYPOTHESIS

R4: Does the provision of Non-Audit Services significantly has effect on Auditors independence?

H₀: The provision of Non-Audit Services does not have a significant effect on Auditors independence?

H₁: The provision of Non-Audit Services have a significant effect on Auditors independence

**Table 4.13: CHI SQUARE FREQUENCY TEST
PROVISION OF NON-AUDIT SERVICES IMPAIRS THE INDEPENDENCE OF THE AUDITO**

	Observed N	Expected N	Residual
DISAGREE	9	12.8	-3.8
NEUTRAL	16	12.8	3.3
AGREE	18	12.8	5.3
STRONGLY AGREE	8	12.8	-4.8
Total	51		

Source: Field work 2020

Table 4.13: CHI SQUARE TEST STATISTICS

	Provision of non-audit services impairs the independence of the auditor
CHI-SQUARE	5.863 ^a
df	3
ASYMP. SIG.	.118

Source: Field work 2020

A concise look at the result in table 4.13 shows that the critical chi-square value of 5.863 is greater than the tabulated chi square value of 0.352 at the degree of freedom of 3 and also the critical significant value of 0.118 is greater than 0.05 which implies that the null hypothesis is rejected according to the decision rule and the alternative hypothesis which states that the provision of non-audit services have a significant effect on auditors' independence is accepted.

4.5 DISCUSSION OF FINDINGS

This study examined the effects of non-audit services on auditor independence in Nigeria. The financial service sector was used for this research with main focus on the banking sector as different selected banks professional's opinions was compared to get fact about the relationship that exist between non-auditor services and auditor's independence. Fifty –one auditors answered the research questionnaire for data generation. Majority of the respondents interviewed had post graduate education and most of them have been working with their various audit firms for more than 4 years and a good number of the total respondents are in permanent employment. The research questions were to:

- Investigate the significance of non-audit services as a source of income for audit firms in Nigeria.
- Determine the major threats to auditor's independence in Nigeria.
- Ascertain the effect of non-audit services on auditor's independence in Nigeria.
- Determine how different forms of non-audit services affect auditor's independence.

The data gathered were analyzed with the use of SPSS and the hypotheses was analyzed using chi square.

The study discovered that the major threats to auditors independence highlighted in the study includes self-interest which was noted as the major threat to auditor independence followed by

familiarity and advocacy as intimidation and self-review were recognized as the least threats to auditors independence in Nigeria. The finding is in tandem with the affirmation of the Awa (2015) findings where it was reported that self-possession threat was reported as the major threat that affect auditor's independence in Nigeria while other threats such as familiarity, coercion and self-review were also highlighted as threats that impairs auditors independence in Nigeria.

The study also reveals the effect of provision of non-audit services on the independence of auditors and some of these effects include an increase in the auditing fee, regulating the quality of auditing in Nigeria, negative influence on the auditors independence, impairing auditor's fair assessment of firms financial statement, decline in auditor skepticism, image problem for auditing as a profession and also provision of unqualified opinions from auditors.

The study also shows that the provision of non-audit services have a significant effect on auditors independence. What this indicates is that provision of non-audit services is a strong determinant of audit quality and the independence of auditors among Nigerian firms. This supports previous findings of (Okolie, 2014) and (Babatolu, A.T. *et al.*, 2016) on the importance of auditor independence in enhancing audit quality when non-audit services are provided by the auditors.

CHAPTER 5

5. CONCLUSION

In conclusion, based on the findings presented in chapter 5 it can be said that there is a significant relationship between the auditor's independence and the provision of non-audit services in Nigeria. This implies that the provision of non-audit services significantly affect auditors independence in Nigeria. The majority of the respondents agreed with the statement that the provision of non-audit services impairs the independence of auditors and also the study shows that an auditor who provides non-auditing services to an audit client is more prone to give an unqualified opinion. These findings disagree substantially with previous studies of (Hudaib, 2003)and (Abdulazeez, I.A., 2009) where the results were consistent with increased with the quality of provision of audit services. The authors concluded that non-audit services are useful to the clients, but were practicable but they should be performed by a firm other than the audit firm. Finally it was discovered that accounting firms should be allowed to carry out consulting and other services to their audit clients without allowing this services to interfere with their independence.

CONCLUDING THOUGHTS ON THE CONTRIBUTION OF THIS RESEARCH, ITS LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

5.1 IMPLICATIONS OF FINDINGS FOR THE RESEARCH QUESTIONS

The following implications of findings in this study is based on each of the research questions which the study was purposed for as the study considered four research questions.

Firstly, the study finding that the major threats to auditors independence highlighted in the study includes self-interest which was noted as the major threat to auditor independence followed by familiarity and advocacy as intimidation and self-review were recognized as the least threats to auditors independence in Nigeria. This implies that there is an increase in direct or implied interest in a customer or from the fear of losing the customer.

Secondly, to the question if auditors efficiently maintain their independence while providing non-audit services to their client, the findings shows that auditors efficiently maintain their independence while providing non-audit services to their client and this implies that the provision of non-audit services to audit clients is not the only factors that impair the quality of audit in Nigeria.

Thirdly, Non-audit services have affected auditor independence in so many ways and this implies that the provision of non-audit services:

- Causes increases in the auditing fee as the provision of non-audit services serve as a major source of income for audit firms in Nigeria.
- As a source of income influences the quality of audit in Nigeria.
- Have a negative effect on the independence of the auditors in Nigeria.
- Impairs the independence of the auditors.

- Auditors who provides non-auditing services to an audit client is more prone to give an unqualified opinion.
- Combining of audit services with provision of non-audit services creates an image problem for the profession.
- Contributed to a decline in auditor skepticism.

Lastly, concerning the research question on the effect of the provision of Non-Audit Services on Auditors independence. The findings implies that the provision of non-audit services alongside with audit services influences auditors independence as it serve as a source of income for audit firms and for this reason audit services and non-audit services should be carried out at different period of time to avoid any form of unprofessional report from the auditors.

5.2 CONTRIBUTIONS AND LIMITATIONS OF THE RESEARCH

The findings of the research make an important contribution to academics, firms, regulatory bodies and professionals in auditing field. Regulators can use the result from this study to oversee the auditing profession and give out regulations in such a way that the independence of auditors are effectively and efficiently maintained when providing non-audit services to their client. Furthermore, the researcher believes that the result helps banks and other firms to improve their internal and external auditing strength and prevention processes for fraud.

Subsequently, the skills and knowledge of professional practitioners can be updated through the findings of this study as regarding the relationship between provision of non-auditing services and auditor independence.

The research work was limited to financial sectors in Nigeria and also other form of limitations encountered during the study include

- Lack of cooperation from some of the respondents as some of them were afraid to release needed information all for the sake of their job security.
- Data was collated through google doc as a result of the effect of covid 19
- The cost of using internet to gather data in Nigeria pose as a challenge as cost of data in Nigeria is expensive due to standard of living in the country.

5.3 RECOMMENDATIONS FOR PRACTICE

This research work in line with existing research contributes to the field of auditing and management of companies with respect to the increased discussion on the non-auditing services provided by auditing firms to audit clients.

This study suggests that more work and research are still needed in the auditing field to back up and strengthen the work done so far by the security exchange commission on how to improve the standard of auditing profession in Nigeria.

The research findings shows that the provision of non-audit services serve as a major source of income for auditing firms in Nigeria and also the study shows that provision of non-audit services influences the quality of audit Nigeria hence the level of integrity and ethical behavior are to more effectively communicated from management to all staffs of the audit firm to help promote auditors independence when providing non-audit services.

5.4 RECOMMENDATIONS FOR FUTURE RESEARCH

The focus of this study is to determine if the auditor's independence are compromised when providing non-audit services to their client. The present study did not consider the economic

situation that most likely affect the auditor's incentives that made auditors in Nigeria to always push for more of non-auditors services to up their financial books, this is a good area for further research. Due to the effect of covid-19, accessibility to most firms seems difficult so for this reason further research should be carried out to involve more firms and more auditors after the covid-19 pandemic and also further research can be carried out to determine the effect of the covid-19 world pandemic on provision of non-audit services and quality of audit in Nigeria. The study seems rigid as most of the auditors used as respondents are mainly from one region in the country as they are the ones that are easily accessible as at the time the work was going on so for this reason further research can be carried out to involve other professional auditors outside Lagos state and beyond Nigeria as well.

5.5 FINAL CONCLUSION AND REFLECTIONS

In conclusion, the study has evaluated the effect of the provision of non-audit services on auditor's independence, determine the major threats to auditor's independence in Nigeria, examine if auditors efficiently maintain their independence while providing non-audit services to their client, examines different ways non-audit services affect auditor independence in Nigeria. The study was able to find out that there is a significant relationship between the auditor's independence and the provision of non-audit services in Nigeria and also self-interest, familiarity and self-advocacy have been pointed out in this study as the major threats to auditor's independence.

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