

## Cultural Factors and Audit Quality. Evidence from Nigeria

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**Abstract** *The purpose of this study is to find out the perception of professional accountants in Nigeria on how some cultural factors affect audit quality. A survey research design was adopted for the study. A questionnaire survey of 108 professional accountants was undertaken. Descriptive statistics were used to analyze the 50 usable responses received. The one sample t-test was used to confirm the significance of the responses. Findings include the fact that some Nigerian accountants receive bribes in the course of duty thus compromising audit quality. Also low litigation culture, slow and tardy judicial process and corruption in the wider Nigerian Society affected adversely audit quality. Our findings have implication for the regulatory authorities as they strive to rein in the monster of audit failures and thus improve audit quality in Nigeria.*

**Key words** Audit Failure, Audit Quality, Corruption, Bribes, Litigation Culture

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### 1. Introduction

The purpose of this research is to find out how professional accountants perceive the effect of some cultural factors on audit quality in Nigeria.

Culture is generally regarded as the way of life of any group of people. The spate of corporate collapse globally has brought to the fore the issue of how culture impacts on Accounting and Audit quality and vice versa. In Nigeria it has been opined that the culture of low litigation against negligent auditors and slow and tardy judicial process may have accounted partly for incidences of low audit quality as the auditors have no incentives to aspire to upgrade quality (Berg & Eskinazi, 2008). It is also clear that audit quality will vary from country to country as the cultural factors that impinge on audit quality are not uniform across various climes. Professional accountants are important stakeholder group in the search for audit quality in Nigeria. To achieve the objective of this study, 108 professional Accountants were surveyed who were ANAN and ICAN members in Awka district societies of their respective professional bodies. Descriptive statistics were used to identify the perception of professional accountants as to the effect of cultural factors on audit quality. The one sample T test was used to confirm the significance of the perceptions of the accountants

The result of this study is important to the Financial Reporting Council (FRC), the new helmsman in charge of professionals in the financial services industry as they seek to put in place machinery for reining in corrupt financial professionals and creating an enabling environment conducive for excellent professional practice. Professional accounting bodies will also be equipped to put measures in place that will enhance the performance of their members and enhance audit quality

### 2. Literature Review

Iwu-egwuonwu (2011) posits that the effectiveness of governance in general and corporate governance in particular is dependent on the behavioral effectiveness of those who govern and manage. Often company management has come under blame for poor corporate governance culture that impacts audit quality adversely (Inyang, 2009). Beyond corporate management, auditors have been assailed for poor firm culture resulting in negligence, lack of professional skepticism and often poor audit quality (Naijacutee, 2011). It has been opined that it will be difficult for any act of fraud to be perpetrated from

start to finish without the active connivance of an accountant/auditor. Check mating, therefore, the tide of corruption, embezzlement and malfeasance in the polity is a charge on the ethical and moral fiber of the accountant/auditor (Osisioma, 2011). Auditors have also been accused of running their firms as commercial enterprises thereby holding the public to ransom (Cousins, Mitchell, Sikka, & Willmott, 1998). At the National and international level the culture of corruption and other misdemeanors have taken their toll on corporate governance and ipso facto audit quality (Okoye, Akenbor, & Obara, 2012a; Bello, 2004; Otusanya, Lauwo, & Hayati, 2012). Companies cannot be divorced from the corruption that exists in the society in which they are operating especially if they are operating in a weakened corporate governance environment like Nigeria (Adekoya, 2011). The problems of developing countries are made worse by the fact of weak legal institutions and lack of whistle blowing culture, among others (Egbiki, 2006). It is clear that many cultural factors are capable of affecting audit quality in Nigeria. There have been instances, for example, where company management had deliberately attempted to deceive their auditors in order to achieve their base motives (Uwuigbe, 2013). In some instances company directors and management have been involved in fraud against their companies (Ezeani, Ogbonna, Ezemoyih & Echezonachi, 2012).

Poor control environment often results in poor internal control and nepotism management. These breed disgruntled staff and provide a fertile ground for fraud. A lot of factors have been fingered as responsible for the low whistle blowing culture in Nigeria. These include the culture of unquestioning obedience to elders and resigning one's faith to providence (Oghojafor, Olusoji & Owoyemi, 2012a). In some extreme cases, Accountants in Nigeria have lost their jobs in the course of duty. Political corruption which is also rife in Nigeria may also be a factor in audit quality (Ogundiya, 2009).

Cultural issues in audit quality was introduced by Akpomi, Amesi & Harcourt, (2009) when they used behavioral considerations to justify the practice of mandatory rotation of auditors in Nigeria. Questionnaires and interview were used to gather data from 37 administrators in both the public and private sectors of the Nigerian economy. Percentages and Chi-Square were used to analyse the data of study. They found that auditors do not have the confidence of administrators when they are on audit assignments as they believe that auditors are out to expose them. On the other hand auditors were also found to be conniving with corrupt officials to cover their lapses.

They therefore, among others, recommended rotation of Nigerian auditors after 10 years. This finding is in line with an earlier study that fingered culture as an important factor in explaining audit quality in Nigeria. (Kida, Saidu, & Urama, 2013) similarly investigated the ethical behavior of Nigerian Auditors and found that Nigerian Auditors do not adhere to their professional ethics in discharging their duties, do not follow their professional code of practice and are incompetent. They lack independence, accept gratification and bribe and compromise their client information (Oghojafor, Olusoji & Owoyemi, 2012b) researched on influences that can impact on corporate governance. Using Cadbury (Nig) Plc as a case study and employing a face to face interview technique, they found that national culture indeed has a strong influence on the efficacy of corporate governance. Some participants in a survey of ethical practices in the accounting and auditing profession in Nigeria admitted a decline in the core values that attracted them to the Accounting profession in the first instance. A survey research design was adopted for this study while Anova was used to test the hypothesis of study (Adeyemi & Olamide, 2011).

For Ezeani, Ogbonna, Ezemoyih and Echezonachi (2012), Nigerian Accountants and Auditors engage in questionable practices aimed at deceiving the unwary public thus adding to the growing body of knowledge indicting Nigerian Accountants and Auditors of untoward behavior. Adeyemi and Uadiale (2011) empirically examined the issue of audit expectation gap in Nigeria and recommended among others the education of the investing public on the responsibilities and duties of the auditor. Questionnaire was served on respondents while ANOVA was used test the hypothesis of study. Perhaps an educated investing public will hold auditors to account by way of litigation when an auditor falls below expectation in its performance.

Nworji *et al.* (2011) investigated the issue of corporate governance and Bank failures in Nigeria in relation to the issues and challenges involved. Using a survey research design and the product moment correlation coefficient to test the hypotheses of study, the issue of pervasive corruption in the Nigerian polity was once again raised.

### 3. Methodology of research

108 Accountants/Auditors was identified for the purpose of collecting data on the environmental factors affecting audit quality in Nigeria. The choice of Auditors/Accountants is based on the fact that they were judged to be in the best position to answer the questions posed on environmental factors as the factors selected had direct impact on their work. Moreover the sensitive nature of the questions required experienced practitioners that will not succumb to sentiments in truthfully answering the questions. The 108 Accountants/Auditors were members of ICAN (45) and ANAN (63) in their Awka district societies respectively. The apparent tilt in the ratio of Chartered Accountants to the National Accountants in Awka is explained by the strong presence of ANAN members who played leading roles in the formation of the body. Once identified we administered questionnaire of the Likert-Scale type on the respondents. However, only 50 out of the possible 108 were received giving a response rate of 46% which we considered adequate for the purpose of meaningful analysis

The statistical techniques applied in this study were as follows:

1) Descriptive statistics of data comprise frequencies and percentages for responses and overall mean scores and standard deviations

2) The one sample T-test of significance used to test the significance of responses in respect of the effects of provision of NAS by an Auditor to an audit client and the effect of cultural factors on audit quality.

The significance of the responses was tested using the student's T test statistics as the inferential statistics. An alpha level of 5% was set at degree of freedom of (n-1) for the sample size n. Expected means from the Likert scales were calculated as  $(5 + 4 + 3 + 2 + 1) / 5 = 3$ . Strongly agree = 5; Agree = 4; Undecided = 3; Disagree = 2; strongly disagree = 1 (Umehali, 2007). The student's t-statistics were computed around the expected mean and the sample means and the result compared with tabulated t at an alpha level of 5% and (n-1) degree of freedom. The use of t-statistics is justified in this instance since the population standard deviation is unknown. A zee test in this instance will need to use the sample standard deviation to estimate the population standard deviation. This will result in a little of accuracy when compared with the t-test statistics. However, since sample size is large (more than 30) the two test statistics will in this instance give similar results (Bowerman, O Connel & Hand, 2001).

### 4. Results

Descriptive Statistics of Questionnaire Responses in Respect of Cultural Factors that Affect Audit Quality

Table 1. Descriptive Statistics of Responses in Respect of Cultural Factors that Affect Audit Quality

S/N	Statement	1	2	3	4	5	Mean	Std, Dev
1	Low litigation culture in Nigeria as regards suing Auditors who contribute to audit failure negatively affects audit quality.	4	2	2	26	16	3.96	1.1
2	Slow and tardy judicial process in Nigeria negatively affects audit quality	2	7	5	21	15	3.8	1.13
3	Corruption in the wider Nigerian Society negatively affects audit quality	3	6	2	17	22	3.86	1.23
4	Some Nigerian Auditors accept bribes in the course of duty and this affects audit quality negatively	1	6	7	22	14	3.84	1.06
5	On the whole cultural factors affect audit quality	4	16	4	42	34	3.86	1.05

Source: Field Survey (2014)

1) Please make other comments you deem fit in respect of cultural factors affecting audit quality in Nigeria

From the table above, 84% (42) of the respondents agreed that low litigation culture as regards suing erring Auditors negatively affects audit quality. Similarly, 72% (36) of respondents agreed that slow and tardy judicial process in Nigeria adversely affects audit quality. On the issue of whether corruption in the

wider society had a negative effect on audit quality, 78% (39) thought it did so. 72% (36) of respondents agreed that some Nigerian Auditors accept bribes in the course of duty and that this negatively affected audit quality. 76% of the respondents agreed that overall cultural factors do affect audit quality.

Question 6 gave respondents free rein to express their opinion on any other factors that affect audit quality in Nigeria. One respondent said "the poor remuneration associated with audit job negatively affects the auditing job in the country" Another commented that "environmental factors are great enemy to audit quality in Nigeria and should be mitigated for effective audit in Nigeria" Some other comments by respondents include:

- a) Nigerian society encourages the ills in audit although there are few disciplined auditors.
- b) Auditors are part of the Nigerian society and cannot be saints where the devil thrives. Corruption affects every part of Nigerian society, Auditors inclusive.
- c) Auditors should be above board and not allow environmental factors influence the result of audit
- d) The process of selecting/appointing Auditors should be based on professional standards to ensure that some environmental factors will be reduced
- e) There is no substitute for integrity in maintaining audit quality.
- f) Directors' and Management attitudes affect audit quality
- g) Auditors are compromised when they are provided with comfortable accommodation, breakfast, lunch and dinner in the course of the audit. This must stop.
- h) The audit laws should be strengthened especially in the area of appointment. The law should also prescribe stiff punishment for erring auditors.
- i) Regulatory bodies are also to blame for not acting promptly on Auditors report. This affects the Auditors' attitude to work.
- j) Many other environmental factors affect audit quality in Nigeria.

Table 2. Summary Statistics for Test of significance of the Responses

S/N	Statement	5	4	3	2	1	Mean	Std, Dev	T-value	Sig.
1	Low litigation culture in Nigeria as regards suing Auditors who contribute to audit failure negatively affects audit quality	4	2	2	26	16	3.96	1.1	25.456	.000
2	Slow and tardy judicial process in Nigeria negatively affects audit quality	2	7	5	21	15	3.8	1.13	23.779	.000
3	Corruption in the wider Nigerian Society negatively affects audit quality	3	6	2	17	22	3.86	1.23	22.191	.000
4	Some Nigerian Auditors accept bribes in the course of duty and this affects audit quality negatively	1	6	7	22	14	3.84	1.06	25.616	.000
5	On the whole cultural factors affect audit quality	4	16	4	42	34	3.86	1.05	25.995	.000

Source: Field Survey (2014)

### Significance of responses

Questions 1 to 4 are relevant. The means for the four questions are 3.96, 3.8, 3.86 and 3.84 respectively. All these exceed 3.0 implying that they are perceived by respondents as impairing audit quality. All the means are statistically significant at 0.05 levels.

#### *Question 1*

Corruption in the wider society does not have any significant effect on audit quality.

Table 2 is relevant. From the table the mean response for this question is 3.86. The T value is 22.191 and an associated P value of .000. This implies that corruption in the wider society negatively and significantly affects audit quality.

#### *Question 2*

Slow and tardy judicial process in Nigeria has no significant effect on audit quality

Table 2 is relevant. From the table the mean response for the question is 3.8. The T value is 23.779 with an associated P value of .000. The implication is that slow and tardy judicial process has a negative and significant influence on audit quality.

#### *Question 3*

Low litigation culture in Nigeria does not have any significant influence on audit quality

Table 2 is relevant. The question response has a mean value of 3.96 which exceeds the cut off mean of 3.00. The T Value is 25.456 with associated P value of .000 at 5% level of significance. This implies that low litigation culture negatively and significantly affects audit quality.

#### *Question 4*

Acceptance of bribes by auditors has no significant effect on audit quality in Nigeria.

Table 2 is relevant. The question response has a mean of 3.84 which exceeds the cut off value of 3.00. The T value is 25.616 with associated P value of .000. This is significant at 0.05 levels. The implication is that acceptance of bribes by auditors has a negative and significant effect on audit quality.

### **5. Discussion of findings**

The empirical analysis of this study provides interesting and revealing.

#### *(a) Cultural factors and audit quality*

It is clear that cultural factors are viewed as very strong factors in audit quality. We hypothesised that some Auditors do not accept bribes in the course of their work. The study confirmed that some Nigerian Auditors have “itching palms” just like some of their counterparts in other climes (Otusanya, Lauwo & Hayati., 2012). One respondent said that it is futile to expect auditors to be saints in a corruption ridden society like Nigeria. It is no longer news that corruption is rife in Nigeria (Okunbor & Obaretin, 2010). Even tax officials are not spared ( Okoye, Akenbor & Obara, 2012b). We also found that slow and tardy judicial process as well as low litigation culture also affected audit quality. This is in agreement with the World Bank report on Nigeria quoted earlier.

### **6. Conclusions**

Our objective was to find out the perception of professional accountants on the effect of cultural factors on audit quality in Nigeria. To this end we obtained responses from 50 out of 108 possible professional accountants in Awka district societies of the bodies. The results were analysed using percentages and one sample T-test. We found that respondents’ believe that some auditors receive bribes in the course of duty and this lowers audit quality. They also believe that low litigation culture affects audit quality. Other factors found from the responses that affect audit quality are corruption in the wider society and slow and tardy judicial process in Nigeria.

Overall, these findings are in line with the few scanty literatures in this area in Nigeria and also agree with the World Bank observations on the state of corporate governance in Nigeria (Berg and Eskinazi, 2008)

Our results should, however, be interpreted in the light of the limitations of this study. First we limited our study to Awka, the Anambra state capital. Secondly the response rate was 47% which can be improved upon. Despite these limitations we believe that the study has uncovered some cultural factors that impinge on audit quality in Nigeria. We have also contributed to the scanty literature in this area in Nigeria. The results should be of significance to regulatory authorities as they seek ways to enhance audit quality in Nigeria.

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