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Effect of Auditor Independence on Audit Quality: A Review of Literature

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Abstract : *Auditor independence and audit quality are two concepts that work inseparably. Many have argued that auditor independence begets audit quality and as such audit quality cannot be different from the system that produces it. This paper reviews literature related to auditor independence and audit quality in order to determine the effect of the former on the latter. The ex post facto research design is employed. Information for this study was obtained from secondary sources to include journals, text books and other internet materials. Based on the review, findings show that there is a strong relationship between auditor independence and audit quality. The review also revealed four threats to auditor independence, which are client importance, non-audit services (NAS), audit tenure, and client's affiliation with CPA firms.*

However, some studies indicated a positive relationship while others showed contrary due to the type of study design employed, sample size, data collection instruments and analysis techniques used. Most of the studies on auditor independence and audit quality were centered on one or two of the threats and majorly done outside Nigeria. Even the ones done in Nigeria were focused on the banking sector. This review therefore, recommends that more investigations should be conducted in Nigeria taking into consideration the four major threats revealed and extend to other sectors like manufacturing, transport, media, education etc.
Key words: *Auditing, Audit quality, Audit tenure, Auditor independence and Non-audit service (NAS).*

I. Introduction

1.1 Background to the study

Before now, businesses were owned and managed by owners and as such self accountability was eminent. But as businesses kept growing in an ever changing environment, there was a need to separate ownership from management. This gave rise to principal –agent relationship where owners (principals) entrusted the duty of running the day-to-day affairs of their businesses into the hands of professional managers (agents). There then came a need for business owners to look for an intermediary whose duty was to supervise the work performed by management who holds little or no interests in the businesses and assure them of fair performance. This by implication ushered in auditing which is an examination of accounting records undertaken with a view to establishing whether they correctly and completely reflect the transactions to which they relate (DeAngelo, 1981). It also gave rise to the agency conflict between owners and managers. With this, auditors are ethically expected to represent the interest of their clients (owners). This position seems to be frequently abused as auditors go into negotiation with management to undertake activities that are detrimental to their clients. This often results to audit expectation gap as the general public sees auditors as performing their ritual roles just to satisfy statutory requirements of an audit.

From the above analogy, one would expect auditors as employees of the owners to carry out their duties independently and in consultation with management to reflect interest of the owners. In order to ensure that the financial information published by firms is reliable for users, it is normally required that financial statements are certificated by an auditor - an objective and rigorous third party who performs independent examinations that give financial statements credibility with users. However, recent financial crises along with audit failures have raised the question of auditor competence and independence. This has prompted a plethora of research into the nature of auditor independence and its relationship with the quality of the audit reports appearing in financial statements (Nam and Ronen, 2014).

Therefore, there is the belief that audit report issued by an auditor should be of reputable quality.

However, the quality of an audit depends on the relationship between an auditor and the clients.

Hardies, K., Breesch, D. and Branson, J. (2009) in C.O. Mgbame, C.O., Izedonmi, F.I.O.
and Enofe A. (2012) argued that audit quality is not simply a linear function of Auditor competence and auditor independence, but also on the market's perception about the Value of the auditor's report which is the result of the perceived competence and the perceived independence of the auditor. Seen from this perspective, audit quality in this case refers to credibility of the audit opinion which is a measurement of the degree of confidence users place upon the information provided by the auditor. Audit quality in recent times has become a source

of worry locally, nationally and globally as most auditors seem not to be discharging their duties independently. Clients appear to be deciding for the auditor the audit scope, approach and opinion. This is evident in the massive corporate failures. Companies like Xerox, Enron and WorldCom, amongst others, have disclosed improprieties in their financial statements amounting to billions of dollars (Cullinan, 2004).

In Nigeria, the story is not different as many companies which were audited and certified healthy could not see the light of the day. In some of these high profile audit failures, auditor misconduct has been alleged. Since the independence of the auditor is a critical issue for the auditing profession, many studies have been performed in this area. This paper reviews evidence related to the auditor independence and audit quality. Existing literatures mainly revealed four threats to auditor independence, which are client importance, non-audit services (NAS), auditor tenure, and client's affiliation with Certified Public Accountant (CPA) firms.

1.2 Statement of the Problem

Audit quality depends on auditor‘s independence as proposed by Aren , Elder, Randal, Beasley and Mark (2014) that the value of auditing depends heavily on the public‘s perception of the independence of auditors. The same thing was also expressed by Enofe, Nbgame and Ediae (2013) based on the results of research that as auditors independence increases, the quality of the audit also increases. The American Securities and Exchange Commission (2003) defines auditor Independence as "a mental state of objectivity and lack of bias". Auditor independence which is the fulcrum of audit quality in recent times seems compromised as most corporations whose financial statements were audited and issued unqualified reports collapsed shortly after audit with the news that the financial statements are grossly misstated (Deirdre, 2010). Auditor independence which determines audit quality was one of the fundamental causes of corporate failures that led to the collapse of hitherto strong firms whose fallout caused the global economic meltdown of the middle 2000. This led to user's apathy and confusion about the role auditors ought to play to safeguard not only their profession but also build and restore investors' confidence with a view to reducing the audit expectancy gap that existed after the collapse of these firms. Investigations into their collapse revealed that their failures were not unconnected with auditors' inability to exhibit their professional competence and independence. The collapse of these firms caused the erosion of shareholders' fund, and further widened the gap between shareholders and management. In the same vein, creditors and other fund providers lost their fate in what would be their compensation for their lost investments. The questions raised by various users of financial statements are whether auditors have compromised with the management of firms or are grossly incompetent to perform their statutory duties? Recent studies have uncovered four threats to auditor independence, which are client importance, non-audit services (NAS), auditor tenure, and client's affiliation with CPA firms. It is on this note that the researcher deems it plausible to review relevant literature to find out if the unveiled threats have any effect on auditor independence which has a strong bond with audit quality. Empirical studies on auditor independence and audit quality were centered on one or two of the threats and majorly done outside Nigeria. This may be perceived as a research gap for domestic work; however, the section on empirical review will determine the position of the researcher.

1.3 Objectives of the Study

The main objective of this study is to examine the relationship between auditor independence and audit quality. The study outlines the following specific objectives:

- To investigate the relationship that exists between client importance and audit quality
- To examine the relationship that exists between client's affiliation with CPA firms and audit quality
- To determine the relationship that exists between audit firm tenure and audit quality
- To ascertain the relationship between non-audit service and audit quality

1.4 Methodology

The ex-post facto research design has been adopted for this study. Secondary sources of data are employed to achieve the objective of the study. The method is considered most appropriate due to the nature of the study which is the review of related literature of the effect of auditor independence on audit quality.

II. REVIEW OF RELATED LITERATURE

2.1 Theoretical Framework

This section reviews related theories that explain the relationship between auditor independence and audit quality. These theories include audit quality theory, theory of relationship marketing and agency theory.

2.1.1 Audit Quality Theory

Audit quality and perceptions of audit quality have been considered as two different concepts by Watkins, Hillison and Morecroft (2004). In order to keep the distinction between these two concepts Watkins et al. (2004) uses factors like "monitoring strength" and "reputation" to refer to the actual and perceived audit quality. The monitoring strength helps in influencing and maintaining the quality of information in the financial statements, whereas the reputation of auditors can influence the credibility perceived by the stakeholders regarding the auditors. The auditors monitoring strength can be measured via the components of audit quality which are auditors' degree of competence and independence. The same degree of competence and independence of auditors' measured as components of audit quality from the perception of market then it would refer to auditor reputation. Auditor reputation is difficult to observe or measure due to the fact that they are based on the users' beliefs. The audit quality framework presented by Watkins et al. (2004) captures the relationship between audit quality components, audit quality products and the influences over the information in financial statements. The two products of audit quality which are influenced by the components of audit quality are information credibility and information quality.

Variations in the auditor monitoring strength can be reflected in the financial reports in the form of trueness in the economic circumstances of the client firm. Thus, auditor monitoring strength in a way reduces the differences between the economic circumstances reported by the client and the true but unobservable economic circumstances of the client firm. The credibility of information or the reliability of information is impacted by the perceived reputation of the auditor. Auditor reputation is considered to be consistent over the period of audit engagement while audit monitoring strength may vary over the period of audit engagement. The relationship between audit quality and either demand drivers (client risk strategies and agency conflicts) or supply drivers (audit fees and auditor risk management strategies) has been presented in the framework of audit quality presented by Watkins et al. (2004).

Watkins et al. (2004) has summarized the client risk strategies which is one of the demand drivers of audit quality, that high-quality information is signaled by the companies by demanding auditors with highly-acclaimed brand-name. But this may not be the case for risky clients, for whom both the demand and the ability of signaling high-quality information is being mitigated by the pricing of the brand name audits.

2.1.2 THEORY OF RELATIONSHIP MARKETING

The theory of relationship marketing describes that the long-term relationship between the buyer and seller has the potential to bring benefit to both parties. In the audit firm context, the organizational auditor-client relationship is essential marketing tool for them to sustain existing service and promote cross-selling (Clark and Payne, 1994). Additionally, it also reduces costs for example setup costs can be amortized over a longer customer lifetime. The value-adding solutions and reduced set-up costs are generally benefits from the auditees' point of view. These benefits mainly persuade the auditee's willingness to purchase NAS from current audit firms (Clark and Payne, 1994).

The continuity of relations dictates that sellers become more knowledgeable about their customers' requirements, desires and needs, which in turn permit them to modify their services to accomplish the finest result. As such, it is typically normal that clients have more conviction in getting a value-adding solution from those suppliers who have demonstrated a steady capability and reliability through past transactions. From the auditing perspective, previous research has acknowledged that the knowledge and trust enlarged from prolonged audit firm tenure is decisive to the audit process (Ghosh and Moon, 2005, Myers, Rigsby and Boone, 2007). This reason can be logically extended to NAS. Like other personalized services, NAS necessitates a profound and intense awareness of the clients' business before it can truly add value to their business. An auditor-client relationship builds up specific belongings with the passage of time that are fundamental to the competence of the audit firm, and more prominently, it builds up the client's trust in the audit firm's ability to provide such NAS. The latter one straightforwardly sways the client's willingness to procure NAS from current audit firms (Ye, Carson, and Simnett, (2006).

2.1.3 AGENCY THEORY

Auditing plays a vital role in reducing both: information asymmetry by empirically confirming the validity of financial statements and agency problems. The principal-agent conflict illustrated in agency theory, where principal (owner) lack reasons to believe their agents (managers) because of information asymmetries and contradictory motives. Information asymmetry deals with the study of decisions in transactions where one party has more or superior information than other(s). The contradictory motives such as financial rewards, labor market opportunities, and associations with other parties that are not directly related to principals can, for example, consequence for agents to be more optimistic about the economic performance of an entity rather than a performance of whole company. Differing motivations and information asymmetries decrease reliability of information, which cause breach of trust that principals will have on their agents. Therefore auditors as a third party used to try to align the interests of agents with principals and to let principals to gauge and manage the behavior of their agents and strengthen trust on agents. This, however, brings new concept of auditors as agents, which leads to breach of trust, threats to objectivity and independence. When auditors perform an audit they are acting as agents for principals and this liaison therefore arising similar issues of trust and confidence as the director-shareholder relationship, prompting questions about who is auditing the auditor. Agents (either directors or auditors) may be trustworthy without further incentives to align interest or monitoring strategies such as audit or increased regulation. However, the simple agency model would recommend that agents are untrustworthy because managers, auditors will have their own interests and motives. Independent auditor from the board of directors is of huge importance to shareholders and key factor to deliver high audit quality. However, an audit obliges a close working relationship with the board of directors of a company. The fostering of this close relationship has led question mark on the independence of auditors and ultimately question mark on audit quality (The Institute of Chartered Accountants in England and Wales, 2002).

2.2 CONCEPTUAL FRAMEWORK

A review of concepts underlying the subject matter under consideration will provide the platform for a better appreciation of the subject matter and clarifies some grey areas of misconceptions using available literature. The section will review the following concepts: Auditing, Audit quality, Audit tenure, Auditor independence, Non-audit service (NAS), and Audit fee.

2.2.1 AUDITING

According to Mautz (1964), auditing is "*concerned with the verification of accounting data, with determining the accuracy and reliability of accounting statements and reports.".* The auditing of financial statements refers to conducting an objective evaluation of the financial statements of a company by an independent auditor. Limited liability companies' annual accounts are by law required to be audited, in order to ensure that the financial statements give a true and fair view to the users of these statements (European Commission, 2010). Although it is acknowledged that it is not reasonable to expect that the audited accounts are entirely free of misstatements, the European Commission (2010) argues that the goal of auditors is to minimize the risk that financial information is misstated. By performing the audit of companies' financial statements, the auditor will provide stakeholders such as investors and shareholders with an opinion on the extent to which the companies' financial statements are accurately presented.

Porter, Simon and Hatherly (2008) describes an external audit as an examination of an entity's financial statements to provide evidence supporting the information contained in those statements. According to Arens, et.al (2012), Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Similarly, Messier (2008) states that ―Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users. If users of the financial statements are to believe and rely on the auditor's opinion, it is essential that the auditor is, or is perceived to be independent of the entity, its management and all other influences. Bahram (2007) asserts that ―to carry out an audit in a manner that meets the reasonable expectations of users of audited financial statements, it is essential that work is performed with due regard for audit quality. The audit firm must not compromise quality to achieve financial benefits.

2.2 .2 Audit quality

The most well-known definition of audit quality, which has been broadly accepted by scholars is the one by DeAngelo (1981) which states that: *"The quality of audit services is defined to be the market-assessed joint probability that a given auditor will both discover a breach in the client's accounting system and report the breach.".* This definition broadly means that audit quality depends on the probability that the auditor discovers a misstatement in a financial statement and actually reports the misstatement. DeAngelo (1981) added that the probability of discovering such a breach depends on aspects such as the technological capabilities of the auditor and the employed procedures of the specific audit. She also argues that the probability that the auditor actually reports the discovered misstatement is a measure of the auditor's independence from the specific client. Thus, an auditor is perceived as independent when the auditor is able to withstand the client's pressure not to report the discovered misstatement (DeAngelo, 1981). If auditors are not independent, they will be less likely to report misstatements, which negatively influences audit quality. As a result, it can be argued that the lower the degree of independence of the auditor, the lower the quality of audit services will be. Palmrose (1988) defines audit quality as *"the level of assurances - the probability that financial statements contain no material omissions or misstatements"* and argues that a higher level of assurances corresponds to a higher quality of audit services. Being an important implication of her definition, she adds that audit failure, being a financial statement with omissions and/or misstatements, is less likely to occur when audit services are of higher quality. High quality auditors with a substantial reputation for detecting and reporting irregularities have great incentives to reduce the likelihood of audit failure in order to retain their reputation. In a situation of a litigation of an auditor, auditors therefore often try to settle the matter out of court in order to avoid damage to their reputation. She argues that audit quality is inversely related to, although seldom seen, litigation against an auditor. Thus, when using the litigation rate as a measure for audit quality, auditors with relatively low litigation rates provide a higher quality of audit services (Palmrose, 2001). Francis (2004) describes audit quality as *"a theoretical continuum ranging from very low to very high audit quality".* In addition to the definition, he argues that audit failures occur on the lower end of the quality continuum. According to Francis (2004), audit failures can occur as a result of two different reasons, either when the General Accepted Accounting Principles were not applied by the auditor, or when the auditor fails to issue a qualified audit report in circumstances that require such a report. Regardless of the reason for the audit failure, in both situations, the audited financial statements will potentially mislead the users of the statements. Francis (2004) argues that the degree to which audits meet the minimal legal and professional requirements can be used as an approximation of audit quality and that audit quality is inversely related to audit failures.

2.2.3 AUDITOR INDEPENDENCE

Auditor independence may be defined as an auditor's unbiased mental attitude in making decisions throughout the audit and financial reporting process. An auditor's lack of independence increases the possibility of being perceived as not being objective. This means that the auditor will not likely report a discovered breach (DeAngelo, 1981). The major threats to auditor independence are the fees perceived by the auditor for audit and non audit services and the length of the auditor – client relationship. The impaired independence of an auditor result in poor audit quality and allows for greater earnings management and lower earnings quality (Okolie, 2014). Auditor independence may be impaired by auditor tenure. As the auditor client relationship lengthens, the auditor may develop close relationship with the client and become more likely to act in favour of management, resulting in reduced objectivity and audit quality.

2.2.4 Audit tenure

"The audit firm's (auditors') total duration to hold their client or number of consecutive years that the audit firm (auditor) has audited the client" (Johnson, Khurana and Reynold, 2002). Auditor tenure has two aspects: the tenure of individuals engaged in the audit, particularly the engagement partner, and the tenure of the audit firm. Empirical evidence regarding the effect of auditor tenure on audit quality supports both arguments, with studies finding that audit quality both increases and decreases as audit firm tenure increases (Johnson, et al, 2002, Myers, Rigsby and Boone, 2003, Mansi, Maxwell and Miller, 2004, Ghosh and Moon, 2005). Some studies on audit partner tenure find a positive association between audit partner tenure and audit quality measured by discretionary accruals (Chi, Huang, Liao and Xie, 2009, Chen,Huang, Liao, and Xie, 2010). Hence, the imposed mandatory partner rotation, which limits auditor partner tenure, can result in decreased audit quality. On the other hand, other studies find a negative association between audit quality and long audit partner tenure (Carey and Simnett, 2006, Hamilton, Ruddock, Stokes and Taylor, 2005). Hence, the effects of audit partner rotation on audit quality are still inconclusive.

2.2.5 Non-audit Services

Non-audit services are all those services provided by audit firms which do not involve audits, for instance, bookkeeping, tax services, and management advisory services including investment banking assistance, strategic planning, human resource planning, computer hardware and software installation and implementation, and internal audit outsourcing (Jenkins and Velury, 2008). The performance of these non-audit services may take the auditors away from their primary duty of checks and balances and as such put shareholders and other interest holders at an unquantifiable risk. Following this perceived deviation by auditors, series of regulations are put in place by concerned authorities. Specifically, regulators are concerned about two effects of non-audit services. One is a fear that non-audit service fees make auditors financially dependent on their clients, and hence less willing to stand up to management pressure for fear of losing their business. The other is that the consulting nature of many non-audit services put auditors in managerial role (Defond et al, 2002). These concerns are summarized in the following quote from the SEC regulations mandating fee disclosures (SEC, 2000). Auditor's services relationship raises two types of independence concerns. First, the more the auditor has at stake in its dealing with the audit client, particularly when the non-audit services relationship has the potential to generate significant revenues on top of the audit relationship. Second, certain types of non-audit services, when provided by the auditor, create inherent conflicts that are incompatible with
objectivity. In the United States, the Sarbanes Oxley Act of 2002 implemented a ban on nine non-audit services.

2.3 Empirical Review

This section reviews extant literature on the relationship between auditor independence and audit quality.

Abdul, Sutrisno, Rosidi and Achsin (2014) investigated the effect of competence and auditor independence on audit quality with audit time budget and professional commitment as a moderation variable in Indonesia. Primary data in form of a public accountant's perception of auditor's competence, independence, audit time budget, professional commitment and audit quality were collected through questionnaires. The sample size of 278 public accountants was randomly selected. Partial least square (PLS) was used to analyse the data. Findings from this work revealed that; First: auditor's competence has positive effect on audit quality. This means that the higher the auditor's competence, the higher the audit quality. Second: auditor's independence has a positive effect on audit quality. It means that the higher the auditor independence, the higher the audit quality. Third: audit time budget weakens the effect of auditor's competence on audit quality. It means the smaller the audit time budget, the greater effect of auditor's competence on audit quality. Fourth: audit time budget weakens the effect of auditor independence on audit quality. It means the smaller the audit time budget, the greater effect of auditor independence on audit quality. Fifth: professional commitment strengthens effect of auditor's competence on audit quality. It means the stronger the audit time budget, the greater effect of auditor's competence on audit quality. Sixth: professional commitment strengthens effect of auditor independence on audit quality. It means the stronger the audit time budget, the greater effect of auditor independence on audit quality. The use of questionnaires by the researcher for data collection makes the findings subjective. Also the study only captures the perception of Public accountants on audit quality which makes the sample size bias.

Sylvia, Fitriany, Arie and Viska (2012) examined the effect of auditor rotation and audit tenure of the public accountant and the public accounting firm on audit quality (before and after the implementation of the mandatory auditor rotation regulation) in Indonesia. The researchers used two observation periods in the study: year 1999-2001 to represent years before mandatory auditor rotation regulation and year 2004-2008 for years after the mandatory auditor rotation regulation. Descriptive statistics and regression were used to analyse the data for both periods. Results showed that longer audit tenure became associated with lower audit quality for the period after mandatory auditor rotation, but conversely for the period before it became mandatory, longer audit tenure increased audit quality. The study only used discretionary accruals as a proxy of audit quality which impaired generalization of the findings. The study also did not examine the relationship between audit tenure and audit rotation on audit quality for each industry.

Ahmed (2014) investigated the professional auditors' perception of the impact of audit firm rotation on audit quality in Egypt. Primary data were collected via questionnaires and used. A sample size of 83 auditors was drawn using non-probabilistic sampling technique. T-test was used to analyse the data. Findings revealed that the auditors' perception indicate that there is a negative relation between long audit tenure and audit quality. There is a negative relation between client-specific knowledge and mandatory auditor rotation. There is a positive relation between auditors' independence and mandatory auditor rotation. The study focused only on auditors perceptions. It ignores other interested parties such as clients, auditing profession associations and legislations which limit generalization. The use of questionnaires and non probabilistic sampling technique by the researcher limit validity and reliability of the findings.

Mahmoud (2015) examined the effect of joint audit on audit quality: Empirical evidence from companies listed on the Egyptian stock exchange. A sample of 32 companies listed on the Egyptian stock exchange in the period 2009 through 2013 representing 160 firm- year observations was determined. Multiple regression model was used to analyse the data. Findings showed that companies audited by joint auditors are more conservative than companies audited by single auditors. The study design did not disclose the entire population where a sample of thirty two was taken.

ICAS, (2014) examined the influence of auditor independence, audit tenure and audit fee both partially and simultaneously on the audit quality of members of capital market accountant forum in Indonesia. The study used primary data that was collected via the distribution of questionnaires. The population where a sample size of 143 was taken comprised senior auditors, supervisors and managers. Linear regression model was used to analyze the data and findings showed generally that auditor independence, audit tenure and audit fee have a positive influence on audit quality. The use of questionnaire as data collection instrument if not handled professionally can impair generalization of findings.

Causholli, Chambers and Payne (2015) investigated the effect of selling non-audit services on auditor independence in America. Findings obtained from statistical regressions of abnormal accruals found strong evidence that the anticipated future provision of non-audit services does represent a source of impaired independence in the current year. The study did not disclose the study design employed as well as the studied population and sample size.

Enofe, Ngbame, Okunega and Ediae (2013) examined the relationship between audit quality and auditors independence in Nigeria. A cross sectional study analysis of companies listed on the Nigerian Stock Exchange was carried out. A sample of twenty (20) audited financial reports of these companies for the period ending

2011 was selected using the simple random sampling technique. The data collected for the variables were subjected to the ordinary least square (OLS) regression analysis. Findings indicated that as auditors' independence increases, the quality of audit also improves and as the independence of the board and ownership structure increases, the quality of audit reduces. It was therefore recommended that auditors should strive for independence in order to ensure quality audits. The study was only carried out in Nigeria and as such the findings may lack universal generalization. The researcher did not disclose the study design employed and the studied population which the sample size of twenty is representing.

Monroe and Hossain (2013) investigated whether audit partner tenure and audit quality associations remain significant after the implementation of mandatory audit partner rotation in Australia. Ex-post facto study design was employed and financial statements and audit opinion for firms with a balance sheet after 1 July 2006 to 30 June 2010 were collected. A sample data of 4,711 was restricted to financially distressed banks. Logistic regression model was used to analyse the data. Findings revealed that auditors are more likely to issue qualified going –concern opinion for financially distressed companies when there is mandatory audit partner rotation after a fixed period of time. Findings suggested that the implementation of mandatory audit partner rotation had improved audit quality. The study only captured some selected financially distressed banks in Australia which grossly ignored other sectors and as such it may affect its generalization.

Babatolu, Aigienohuwa and Uniamikogbo (2016) examined the effect of auditor independence on audit quality of selected deposit money banks in Nigeria. Purposive sampling technique was used to select sample size of seven (7) listed deposit money banks from a population of twenty (20). Secondary data were sourced from the audited annual report of the sampled banks. Descriptive statistics, correlation and ordinary least square (OLS) regression were used to analyze the data. Findings revealed that there is a positive relationship between audit fee, audit firm rotation and audit quality. There exists negative relationship between audit firm tenure and audit quality. The correlation between audit quality and leverage was strong, negative and statistically significant. The correlation between audit quality and company size was strong, positive and statistically significant. The use of purposive sampling technique which is unscientific to determine sample size limit validity of the findings.

Kabiru and Abdullahi (2012) carried out an empirical investigation into the quality of audited financial statements of deposit money banks in Nigeria, using both primary and secondary data and from the population of 21 banks, they selected a sample of 5 banks comprised First Bank, Zenith Bank, Union Bank, United Bank for Africa and Access Bank, all publicly quoted companies in Nigeria. They found that Independence of an auditor does significantly improve the quality of audited financial statements of money deposit banks in Nigeria. Compliance to auditing guidelines has positive and significant effect on the quality of audited financial statement of money deposit banks in Nigeria. Material misstatement does significantly affect the quality of audited financial statements of money deposit banks in Nigeria. They also found that audited financial statements of Nigerian money deposit banks, if re-audited by other independent auditors, will give the same result and conclusion. The absolute assurance given by the researcher that if financial statements of Nigerian money deposit banks are re-audited by other independent auditors, will give the same result and conclusion is not realistic as two independent auditors cannot produce the same result in practice.

III. CONCLUSION

Based on the review, findings show that there is a strong relationship between auditor independence and audit quality. The review also revealed four threats to auditor independence, which are client importance, non-audit services (NAS), audit tenure, and client's affiliation with CPA firms.

However, some studies indicated a positive relationship while others showed contrary due to the type of study design employed, sample size, data collection instruments and analysis techniques used. Most of the studies on auditor independence and audit quality were centered on one or two of the threats and majorly done outside Nigeria. Even the ones done in Nigeria were focused on the banking sector.

IV. RECOMMENDATION

It is crystal clear from the review that some studies indicated a positive relationship between auditor independence and audit quality while others showed contrary due to the type of study design employed, sample size, data collection instruments and analysis techniques used. Most of the studies on auditor independence and audit quality were centered on one or two of the threats to auditor independence and majorly done outside Nigeria. Even the ones done in Nigeria were focused more on the banking sector. This review therefore, recommends that more investigations should be conducted most especially in Nigeria taking into consideration the four major threats revealed and extend to other sectors like manufacturing, transport, media, education etc.

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