

**MANAGING CONFLICT OF INTERESTS IN AUDIT PRACTICE:
EXPERIENCE OF SMALL AUDIT FIRMS IN NIGERIA.**

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NOVEMBER,2023.

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**BEING A PROJECT WORK SUBMITTED TO THE DEPARTMENT OF
ACCOUNTING, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY OF
BENIN, BENIN CITY, IN PARTIAL FULFILLMENT OF THE REQUIREMENT
OF THE AWARD OF BACHELOR OF SCIENCE (B.SC) HONS. DEGREE IN
ACCOUNTING.**

NOVEMBER, 2023.

DECLARATION

I Deborah Isong Bassey declare that:

- I. This study is based on a study undertaken by me in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City and under the supervision of Professor A.O. Oladipupo, Esq of the Department of Accounting, Management Sciences, University of Benin, Benin City.
- II. This work has not been submitted for the award of the degree elsewhere.
- III. Ideas and views are products of my personal research and where the view of others has not been expressed, they have been duly acknowledged.
- IV. Any liability arising from this work is to be wholly borne by me.

Deborah Isong Bassey
MGS1807550

Date

CERTIFICATION

We certify that this research project was carried out by **Deborah Isong Bassey** in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, Nigeria. It is adequate in scope and quality in partial fulfillment of the requirements for the award of Bachelor of Science(BSc.)degree in Accounting.

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(Head of Department)

Date

DEDICATION

This project work is dedicated to Almighty Yeshua Hamashiack for his abundant grace and benevolence in my life. I am thankful for this guidance and faithfulness through out my academic journey and aspirations and for seeing me through my academic pursuit and aspirations. His support has been the well spring of my resilience, and it is solely through his guidance that I have risen to great heights. I would also like to extend my dedication to my family and friends for their ever consistent love for me. Thank you and I appreciate you, may Jehovah reward you abundantly.

ACKNOWLEDGEMENT

I would like to acknowledge the unwavering and invaluable support and guidance provided by my supervisor, Professor A.O.Oladipupo, Esq. throughout the duration of this project. His expertise, perspectives and insights played a pivotal role in determining the path and end result of this work. I would also like to specially express my gratitude to my mother, Gloria Godwin, Bro Oto, the Esezbor family, and pastor John Okeleke. Additionally, I would also like to extend my thanks to my friends: Deborah Adebayo, for allowing, Victor, Dorothy, and Austin.

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ABSTRACT

This research project focuses on the critical role of auditing in ensuring the accuracy of financial statements within firms. It delves into the significance of audit practices, emphasizing their role in managing and confirming the correctness of accounting procedures. Despite this crucial role, conflicts of interest often arise, raising questions about the authenticity of audits and auditors' opinions on firms' assertions. These conflicts can stem from various sources, including non-audit services, client pressure, and personal relationships, potentially compromising auditors' independence, objectivity, and integrity.

The study specifically investigates the experiences of small audit firms in Nigeria, Nigeria, in managing conflicts of interest in audit practice. It aims to identify the forms, causes, effects, and effective management strategies for conflicts of interest in this context. Through a cross-sectional survey design, data will be collected using questionnaires from owners, auditors, staff, and stakeholders of these small audit firms.

The research seeks to shed light on the challenges faced by these firms and propose viable solutions. It also aims to contribute to the enhancement of audit quality and the maintenance of stakeholders' confidence in financial reporting. The findings from this study could potentially influence regulatory policies and serve as a reference for further research in this domain.

CHAPTER ONE

INTRODUCTION

1.0 Background to the study

Considering the state of firms, the role of auditing cannot be overemphasized. The manner in which it is carried out is very crucial. Audit is the examination or inspection of various books of accounts by an auditor followed by physical checking of inventory to make sure that all departments are following documented system of recording transactions. Sharma (2021). It is done to ascertain the accuracy of financial statements provided by the organization. Audits are performed to manage and confirm the correctness of a company's accounting procedures. Teck-Heang and Ali(2008)

According to Rostami(2009) audits help ensure the accuracy of financial statements and other records, promoting transparency and accountability within organizations. They can uncover fraud or financial irregularities, preventing financial losses and preserving the integrity of an organization. Audits ensure that an organization complies with relevant laws, regulations, and industry standards, reducing legal risks. They can identify inefficiencies in processes and suggest improvements, which can lead to cost savings. Audited financial statements can boost investor confidence by providing an independent assessment of an organization's financial health. Audited financials can enhance an organization's creditworthiness when seeking loans or investment.

According to Ardelean(2015), it is the auditor that authenticates the correctness of financial information that is passed to the end users, and he does that based on his professional code of ethics and regulation. Therefore, auditors occupy the central role in bridging the communication gap between the management of an enterprise, and the end-users of the published financial reports. In a nutshell we cannot underestimate the importance of reliable information prepared by the organizations management, certified by the external auditor that is given to the users of the financial statement.

Auditors,plan the audit process by understanding the organization's objectives, risks, and internal controls. Hass Abdolmohammad and Burnaby, (2006). They decide on the scope and approach of the audit. Auditors collect and examine evidence, such as financial records, transactions, and documents, to assess their accuracy and compliance with relevant Bajo and Petracci(2006.)They perform various audit tests, such as substantive testing and control testing, to verify the information provided by the organization. This includes sampling, reperformance, and analytical procedures.Auditors assess the internal controls in place within an organization to ensure they are effective in preventing errors and fraud.If discrepancies or issues are found during the audit, auditors document and report them.

However, in the execution of these expected duties, conflict of interest may arise. And this questions the authenticity of the audit practice and even down to the auditors' opinion on

the truth and fairness of the firms' assertions. Conflict of interest is a major issue in the auditing industry since it can jeopardize the independence, objectivity, and integrity of auditors. Taylor et al. (2003) Effective conflict management is a concern for audit firms of all sizes, but small audit businesses in particular confront specific challenges because of their limited resources and competitive markets. The knowledge gained from small audit firms' experiences in addressing conflicts of interest is particularly valuable since it reveals the methods and techniques these companies use to maintain the objectivity of their audit engagements. Moore et al. (2008) opined that, conflicts of interest may be exhibited in a manner that creates countervailing interests that compel practitioners to become painfully self-conscious and preemptively self-critical about their auditing practices.

In some cases, it is noted that auditors perform non-audit services for their clients which might interfere with their audit work and thereby, involved in making executive decisions for the client and could result to a conflict scenario. An auditor in performance of one or more duties for his client is expected to approach his work with integrity, independence and objectivity. Hardy (2006). In addition, there are instances in which services other than pure audit work to an audit client may or appear to threaten the independence of an auditor such as self-interest, competition between audit firms, advocacy threat etc. these threats may oppose auditors objectivity.

In the study by Af Abdul(2013), audit quality goes beyond the competency of individual auditor but depends on the capacity and professional values adopted by the auditing firms .As the business environment gets more globalized and complex, auditing would be more challenging and the quality of the people involved in audit would be very important to maintain audit quality.

1.1 Statement of Research problem

Conflict of interest in audit practice may emanate from various sources some of which are: non audit service, client pressure, and close relationships. Management of these conflicts of interest in audit practice is the research issue that is addressed in this paper, with a focus on the practical experience of small audit firms in Nigeria, Nigeria. Small audit firms in Nigeria operate in a unique socioeconomic environment that may have an impact on how they handle conflicts of interest. Investigating the experiences of local small audit businesses can shed light on the difficulties they face as regards conflict of interest and ways it can be managed.

1.2 Research Questions

To achieve the research objectives, the following research questions will be addressed:

1. What are the forms of conflict of interest in audit practice?
2. What are the causes of conflict of interest in audit practice?

3. What are the effects of conflict of interest in audit practice?

4. How can conflict of interest be effectively managed in audit practice?

1.3 Research Objectives

The major objectives of this study are:

1. To ascertain the forms of conflict of interest in audit practice

2. To find the causes of conflict of interest in audit practice

3. To find out the effects of conflict of interest in audit practice

4. To find out ways conflict of interest can be effectively managed in audit practice

1.4 Research Hypotheses

In order to aid empirical analysis that will achieve the objective of this study and ultimately provide solution to the problem of the study, the following hypotheses will be tested and analyzed:

HO: Non audit service ,client pressure, and close personal relationship are forms of conflict of interest in audit practice

HA: Non audit service, client pressure, and personal relationship are not forms of conflict of interest in audit practice

Ho2: Non audit services, client pressure and close personal relationships are causes of conflict of interest in audit practice.

HoA: Non audit services, client pressure, and close personal relationships are not causes of conflict of interest in audit practice.

Ho3: Conflict of interest does not significantly affects audit practice

HA3: Conflict of interest significantly audit practice

Hao4: Conflict of interest in audit practice cannot be managed

HA4: Conflict of interest in audit practice can be managed

1.5 Scope of the study

Geographical coverage: The focus of this study is on the experiences of small audit firms in Nigeria; hence the findings and recommendations may not generalize to other places or regions.

Time horizon: the length of period covered by this research is a period of 5 years which spans from the periods of (2018-2022)

1.6 Significance of the study

This Study will help to create a conscious mind in the auditor of the relevance of independence in auditing and how conflict of interest can be prevented from its occurrence during audit service.

This study's findings will help small audit firms better understand the difficulties they have when resolving conflicts of interest and propose doable solutions.

The study may help regulatory organizations build policies and rules to improve conflict of interest management in small audit companies.

Small audit companies can increase stakeholder's confidence and trust in the profession by skillfully handling conflicts of interest, assuring the accuracy and dependability of financial reporting.

The findings of this study will stimulate further research in this area. It should be able to serve as a reference point for those interested in this area of research.

1.7 Limitations of the study

The limitations of this project are:

Limitation in generalization: First off, because the research focuses primarily on the experiences of small audit businesses in Nigeria, it's possible that the conclusions cannot be applied to other small audit firms in Nigeria or other nations.

Sample size: The sample size is not so large due to restriction to a particular geographical location and time.

Time Constraints: Conducting a comprehensive study on managing conflicts of interest in audit practice requires sufficient time and potentially restricting the scope and comprehensiveness of the study.

Cultural and Regional Specificity: The findings of the study may be influenced by the specific cultural and regional context of Nigeria. The challenges, strategies, and recommendations identified may not be directly applicable to small audit firms operating in other cultural or geographical contexts.

1.8 Organization of report

Chapter one provides an introductory background in to the study as well as the problem statement, the study wishes to provide answers and the research objectives and hypothesis.

We provided the significance, scope and limitations of the study. In chapter two, we provided a thorough review of literatures on the topic .In chapter three; the research methodology was discussed in great details. We analyzed and evaluated the empirical

research results in details to establish of the objectives were met in chapter four .In chapter five, the summary of the work was outlined, recommendations were made to provide guidance to stake holders and conclusions we're drawn.

1.9 Definition of Terms

Auditor: The external professional charged with the task of attesting to the fair presentation of company financial statements.

Auditor Independence: The expected relationship between the auditor and client in order to receive reasonable assurance that the judgments made by the auditor are free age any influence by the client or other parties.

Non audit services: These are free based services performed by the auditing firm which are not related to the audit engagement.

Audit practice: Encompasses all audit techniques and procedures.

Audit: Audit is the examination or inspection of various books of accounts by an auditor followed by physical checking of inventory to make sure that all departments are following documented system of recording transactions.

Regulatory Provisions: This include auditing standard and auditing guidelines, the statements issued by profession accounting bodies setting up basic principles, procedures and ethics to be adopted by members in the conduct of audit and how they should be applied.

External auditors: come in from outside the organization to examine accounting and financial records and provide an independent opinion on these records. Law requires that all public companies have their financial statements externally audited.

Professional ethics and regulation: Are principles that govern the behavior of a person or group in a business environment. Like values, professional ethics provide rules on how a person should act towards other people and institutions in such an environment.

Conflict of interest: A conflict of interest occurs when an individual's personal interests – family, friendships, financial, or social factors – could compromise his or her judgment, decisions, or actions in the workplace.

Objectivity: It is the quality or character of being objective : lack of favoritism toward one side or another : freedom from bias.

Audit services:means the auditing of financial statements, the provision of other guarantees and the implementation of other agreed procedures in the field of auditing.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

According to Botzem(2012),audit practice in Nigeria has undergone significant developments and transformations over the years, shaped by changes in legislation, regulatory frameworks, and global auditing standards. As of the present time, several key aspects characterize the audit profession in Nigeria. The Companies and Allied Matters Act (CAMA) and the Financial Reporting Council of Nigeria (FRCN) Act oversee the audit profession in Nigeria. These acts set the legal and regulatory framework for audit practice, including financial reporting requirements, audit standards, and the formation and regulation of professional organizations. The Institute of Chartered Accountants of Nigeria (ICAN) and the Association of National Accountants of Nigeria (ANAN) are the two most significant professional organizations in Nigeria for auditors. ICAN is the principal accounting organization in charge of creating professional standards, overseeing auditor training and certification, and encouraging ethical behavior in the profession. Bakre(2007)

Nigerian auditing standards have improved to comply with worldwide best practices Okoye et al. (2006) .Nigerian Generally Accepted Auditing Standards (NGAAS) are issued by the Financial Reporting Council (FRC) and are based on International Standards on Auditing (ISAs). Auditors are expected to follow these guidelines while

conducting audits and providing opinions on financial statements. In Nigeria, ensuring audit quality and independence remains a top priority. Auditors are supposed to preserve professional skepticism, due care, and independence in appearance and fact Popova (2012). Through inspections, the Financial Reporting Council (FRC) checks audit quality and enforce conformity with ethical and professional norms .Logie et al. (2021).

Conflict of interest is a major worry in the auditing sector since it may weaken auditor impartiality and independence, jeopardizing the audit process's quality and integrity Taylor et al. (2003). Due to their limited resources and customer base, small audit companies, in particular, confront significant issues in controlling conflicts of interest .Zimmerman (2015).

Conflicts of interest can have a substantial influence on the objectivity, independence, and integrity of the audit process; hence the link between audit practice and conflict of interest is an essential factor to address. Umar and Anandarajan (2004).

Conflicts of interest harm audit engagement quality .Nelson (2006) There is a danger that auditors will be swayed to favour their own interests or violate professional standards if they have personal or financial interests that may be affected by the audit conclusion. Windsor et al.(2009). This might result in insufficient or erroneous audit methods, lowering the audit's overall quality.

2.2 Conceptual Review

Audit

An audit is a methodical investigation and assessment of the financial documents, reports, procedures, controls, or operations of a company, institution, or person. Isa et al. (2015). Audit is carried out to ascertain the subject matter's accuracy, dependability, and conformance with any applicable laws, regulations, policies, or predetermined standards. Majdalawieh et al. (2016). Both internal and external auditors are capable of performing audits. An audit's main goal is to give an unbiased, impartial review of the subject matter in order to guarantee its effectiveness, integrity, and conformance to predetermined criteria. Audits are frequently performed for financial reporting purposes, such as statutory audits mandated by law, or for assurance purposes to give stakeholders, such as shareholders, investors, creditors, or regulatory agencies, credibility and confidence. Archambeault et al. (2008). Audits, also referred to as performance audits, can be carried out to evaluate the effectiveness, economy, and efficiency of activities Grönlund et al. (2011). Overall, audits are an important instrument for guaranteeing openness, responsibility, and good governance within organizations Juiz et al. (2014). They are also crucial for preserving the public's faith in the veracity and integrity of financial data and corporate processes. Audit promotes trust and confidence in the organization's financial

integrity. Audits aid in finding mistakes, inconsistencies, or fraudulent behavior within a company. Humpherys et al. (2011).

Auditor

Auditors are typically trained in accounting, finance, or a related field and possess knowledge of auditing principles, practices, and standards. Power (1997). They may hold certifications such as Certified Public Accountant (CPA), Chartered Accountant (CA), or other recognized professional qualifications in auditing. An auditor is a person qualified to examine financial documents, confirm their accuracy, and make sure businesses are following tax regulations. They protect businesses from fraud, point out discrepancies in accounting methods and, on occasion, work on a consultancy basis, helping organizations to spot ways to boost operational efficiency. Auditors work in various capacities within different industries. An auditor is a person qualified to examine financial documents, confirm their accuracy, and make sure businesses are following tax regulations. According to SA lawal, The auditors, protect businesses from fraud, point out discrepancies in accounting methods and, on occasion, work on a consultancy basis, helping organizations to spot ways to boost operational efficiency.

Qualities of an auditor

For auditors to efficiently carry out their duties, they need to have a variety of traits and abilities. Libby and Luft(1993).The following are essential traits that auditors should possess some these qualities are:

Integrity and Ethics: Auditors are expected to uphold the highest standards of morality shuab et al.(1993). In their work, they should exhibit integrity, objectivity, and independence. Taylor et al(2003). Auditor skills include maintaining objectivity in the workplace and avoiding conflicts of interest.

Strong analytical and critical thinking abilities: are necessary for auditors to examine complicated financial data, spot trends or abnormalities, and evaluate risks. They ought to be capable of making defensible decisions based on the evidence at hand, thinking logically, and posing appropriate questions.

Attention to Detail: Because auditing requires evaluating a large number of financial data, papers, and other information, auditors must pay meticulous attention to detail .Albrecht et al.(2008). To ensure accuracy and precision in their information collecting and analysis, they should be thorough in their work.

Knowledge and expertise: Auditors should possess a solid foundation of knowledge in accounting, auditing concepts, pertinent legislation, regulations, and industry practices.

Power (1997). It's crucial to keep up with changing standards and laws if you want to conduct audits successfully.

Communication abilities: For auditors to interact with clients, coworkers, and stakeholders, effective communication is essential. To properly and concisely communicate complicated financial concepts and audit findings, they should have good verbal and written communication skills.

Problem-Solving and Decision-Making: Auditors must be adept at solving a variety of problems that arise during audits. They ought to be able to recognize problems, assess potential solutions, and choose wisely based on the information at hand.

Time management and organization: are important for auditors because they frequently handle several engagements at once and work under pressure. For projects to be prioritized, deadlines to be met, and workloads to be efficiently managed, one needs strong time management and organizational abilities.

Internal auditor

Internal audits are carried out by internal auditors, who are employed by organizations. They evaluate the efficiency of operating procedures, risk management systems, and internal controls. Vijayakumar and Nagaraja, (2012). Internal auditors offer unbiased

assessments, point out areas for development, and help management accomplish organizational goals. Internal auditors uphold their independence and neutrality throughout their work. They are independent from the areas they audit since they answer directly to the audit committee or senior management. Because of their independence, they can offer objective evaluations and suggestions Cohen et al. (2007). Internal auditors evaluate the layout and efficiency of internal controls. They assess if the controls are effectively created to reduce risks, protect assets, and guarantee adherence to rules, laws, and policies. Internal auditors may conduct tests to ascertain whether controls are functioning properly. Internal auditors assess the organization's procedures and methods for risk management. They identify and evaluate risks, suggest methods for reducing them, and keep an eye on how risk management initiatives are being carried out. Internal auditors assist the organization by evaluating risks and controls. The governance, risk management, and internal control systems of an organization are not complete without internal auditors.

External Auditor

Independent experts or audit firms that do external audits are known as external auditors. Organizations hire them to offer an unbiased evaluation of their financial statements and guarantee adherence to rules and standards for accounting. The fairness and correctness of

financial statements are often the subject of an assessment from external auditors. Brown(1962).

An external auditor's main area of focus is audits of financial statements. They check the accuracy, completeness, and conformity with applicable accounting principles, standards, and laws of an organization's financial records, transactions, and statements. The goal is to provide an assessment of the fairness and accuracy of the financial accounts. External auditors conduct their evaluations with independence and objectivity. They have no financial or operational connections to the company being audited. The integrity and credibility of the auditing procedure and the resultant audit opinion are guaranteed by this independence. External auditors evaluate an organization's compliance with applicable legal, regulatory, and industry-specific requirements as well as accounting standards. Beets and Souther (1999).They check to see if the financial statements are accurate. They check to see if the financial statements accurately reflect the organization's financial situation, operating results, and cash flows.

To find substantial risks that could have an impact on the financial statements, external auditors conduct risk assessments. Cohen et al,(2017) External auditors design and perform audit procedures to gather sufficient and appropriate audit evidence. They may

conduct interviews, examine documents and records, perform analytical procedures, and carry out substantive testing to support their audit opinions.

Auditing Standards

A collection of norms and standards known as auditing standards are used by auditors to carry out and document their audit engagements. Nearon (2005). These guidelines guarantee that audits are conducted ethically, objectively, and professionally competently, and that the user-friendly reports that emerge are trustworthy. Auditing standards include requirements and guidelines related to quality control processes within audit firms or departments. Cooper et al. (2002). These standards aim to ensure that audit engagements are carried out with appropriate supervision, review, and documentation, and that there are adequate systems in place to monitor the overall quality of audits. Auditing standards also address the format and content of audit reports. These standards define the required elements of an audit report, including the auditor's opinion on the financial statements, the basis for that opinion, and any additional disclosures or explanatory paragraphs that may be necessary. Prasad and Chand (2017)

In some cases, auditing standards may be established by regulatory bodies or government agencies to govern the audit requirements for specific industries or sectors. These standards

typically include additional rules and procedures that auditors must follow when auditing organizations operating within those regulated industries.

International Standards on Auditing

The International Auditing and Assurance Standards Board (IAASB), an independent standard-setting body affiliated with the International Federation of Accountants (IFAC), has developed a collection of rules and processes known as the International Standards on Auditing (ISAs). These guidelines offer direction on how financial statement audits and other assurance engagements should be carried out globally.

The main goal of ISAs is to raise the standard and consistency of auditing procedures around the world. Roussey (1996). They instruct auditors on the proper planning, execution, and reporting of audits as well as on how to offer reasonable assurance regarding the fairness of financial statements. Auditors who examine financial statements in the private sector are subject to ISAs. National auditing standard-setters and regulatory organizations all over the world have mostly adopted them.

The conceptual framework upon which ISAs are built places a strong emphasis on the professional skepticism, independence, and judgments of the auditor Chiang(2016).They provide precise guidelines and requirements for several parts of the audit process in addition to outlining fundamental concepts.

Nigerian Standards on Auditing

The Auditing Practices Committee (APC) of the Financial Reporting Council of Nigeria (FRCN) has published a set of standards and principles known as the Nigerian Standards on Auditing (NSA) (Osinubi, 2015). These guidelines offer Nigerian auditors direction on how to prepare for, carry out, and report on their audits. With certain revisions to fit the Nigerian legal and regulatory context, the NSA is based on the International Standards on Auditing (ISA) published by the International Auditing and Assurance Standards Board (IAASB). The Nigerian Standards on Auditing's main goal is to raise the caliber and uniformity of Nigeria's auditing procedures. Downey and Westermann (2021). They give auditors a framework for working within the bounds of accepted professional norms, ensuring that audits are carried out with the necessary care, independence, and professional skepticism. These standards direct auditors in determining the risks related to a company's financial statements and internal control system. These guidelines offer guidance on the type, timing, and volume of audit evidence needed to substantiate the auditor's conclusion.

Audit Process

An organization's financial records, statements, and internal controls are systematically examined as part of the audit process in order to offer an unbiased assessment of their

accuracy and dependability Morris(2011). In order to acquire information, evaluate risks, and reach an opinion regarding the fairness of the financial accounts, auditors must plan the audit by learning about the organization's operations, sector, and major risks. Johnson et al. (1991). They also evaluate the audit's scope, set goals, and create an audit plan outlining the steps to be taken. The next thing is Risk assessment, which means the auditors pinpoint and assess risks that could have an effect on the financial statements. The next step is evaluating of internal controls and determining the probability and effect of suspected fraud or errors. The next step is gathering Evidence here, auditors gather evidence using a variety of techniques, such as document inspection, interviewing, and transaction testing. They concentrate on gathering sufficient and pertinent data to back up their conclusions. After that the auditor carry out, evaluation and analysis: Auditors evaluate the information received to determine the accuracy of the financial statements and their adherence to the relevant accounting rules Hodgdon(2009). Auditors follow professional standards, uphold their independence and neutrality, practice professional skepticism, and record their work in accordance with established standards throughout the audit process. Hurtt et al.(2013)

Lastly, the auditor reports the assessment of the accuracy of the financial accounts, together with any significant problems or flaws that were found and suggestions for improvement.They could also keep track of the development of the company.

Audit Quality

The efficacy of the audit process as a whole is shown by the degree to which an audit is carried out in line with statutory requirements and professional standards. For financial reporting to continue to be trusted and for financial statements to be reliable, high audit quality is essential. The duty for improving audit quality is shared by regulators, audit firms, auditors, and other stakeholders. By providing accurate and trustworthy financial information, high-quality audits contribute to the protection of the interests of creditors, investors, and other users of financial statements. The effectiveness, dependability, and value of an audit are all impacted by a variety of aspects of audit quality. The following significant factors further clarify what is meant by audit quality

Financial Statements

Financial statements are official documents that outline an organization's financial situation, performance, and cash flow. They offer an overview of the entity's financial actions and outcomes for a given time frame, usually a fiscal year. International financial reporting standards (IFRS) or generally recognized accounting principles (GAAP) are used to prepare financial accounts. Decision-making by a variety of stakeholders, including investors, creditors, lenders, regulators, and management, is greatly influenced by financial statements. They make it easier to analyze an organization's financial performance, assess

its risk exposure, support investment choices, and allow for comparisons with similar companies or earlier periods.

Overall, financial statements are essential instruments for evaluating an entity's financial performance and health, empowering stakeholders to take decisive action based on accurate and transparent financial data. Mähönen (2020)

Auditor's Opinion

A formal statement concerning the accuracy and dependability of a company's financial statements is known as an auditor's opinion. After completing an audit and analyzing the company's financial records, transactions, and internal controls, it represents the auditor's professional judgment and conclusion. The audit report that goes along with the financial statements usually includes the auditor's opinion. The opinion details the auditor's assessment of whether the financial statements accurately reflect the entity's financial situation, operational results, and cash flows and were prepared in conformity with the relevant accounting rules.

Audit Practice

Audit practice encompasses the review and assessment of financial transactions, systems, and controls to provide assurance on the reliability, accuracy, and integrity of financial reporting." Boynton, et al. (2005). Audit practice is the process of evaluating evidence to assess the assertions made by management in the financial statements and determining whether they are presented fairly in accordance with the applicable financial reporting framework. Peecher et al. (2013). Audit practice is an intellectual process of investigating and evaluating the fairness and reliability of financial information, systems, and controls, ultimately leading to an independent and objective expression of opinion on the financial statements. Rozario et al. (2019). Audit practice is an iterative process involving planning, risk assessment, evidence gathering, analysis, and communication Bell et al. (2002). It is guided by professional standards, aimed at providing reasonable assurance on the financial statements.

Conflict of interest

A conflict of interest arises when a person or organization has opposing professional or personal interests that could compromise their capacity to behave impartially and objectively. Hayward, , and Boeker (1998). A conflict of interest refers to a situation in

which a person, entrusted with responsibilities, has private interests that could improperly influence the performance of their official duties and responsibilities. Nikolov (2013).

A conflict of interest is a situation in which a person has competing loyalties, obligations, or interests that could potentially compromise their ability to act in the best interest of others. It can occur when a person's private interests or relationships, whether financial, personal, or professional, have the potential to influence or compromise their ability to exercise independent judgment and act in the best interest of others. A conflict of interest is a situation in which a person has a professional or personal interest that could compromise their professional judgment or unduly influence their actions. A conflict of interest occurs when an individual has divided loyalties or competing interests that could compromise their ability to fulfill their professional obligations or act in the best interest of clients, employers, or the public.

Conflict of interest and Audit Practice

Conflicts of interest may significantly impact the audit process's dependability and efficacy. The relationship between conflict of interest and audit practice can be explained using the concept of dependence: is a fundamental principle in auditing that ensures auditors remain unbiased and free from any conflicts of interest. Auditors must maintain independence both in appearance and in fact, meaning they must not only be objective but also be perceived

as independent by others. Conflicts of interest can impair auditor independence, potentially leading to biased judgments, compromised objectivity, or the perception of compromised independence.

Professional skepticism too can be undermined by conflicts of interest because they lead to a tendency to accept information without conducting enough due diligence or to minimize dangers or anomalies. This may lead to a failure to recognize and address substantial fraud or misstatements.

When auditors have close links with their customers, such as ongoing engagements or financial ties that go beyond the audit fees, conflicts of interest may occur. These connections could make the auditor feel dependent or loyal to the client, which might impair their capacity to make impartial professional judgments. In order to avoid conflicts of interest that can compromise their independence and objectivity, auditors must carefully handle these ties.

Conflict of Interest and the Auditor's Opinion

Conflicts of interest can affect how materiality is rated by auditors. The term "materiality" describes the size of an error or omission in the financial statements that could have an impact on consumers' choices. Conflicting interests may lead auditors to set materiality

criteria higher or lower, which could alter how significant errors or misstatements are judged. The auditor's assessment of the financial statements may be impacted as a result.

Conflicts of interest can negatively affect the auditor's judgments by weakening objectivity, undermining professional skepticism, skewing judgments of materiality, and giving the appearance of bias. In order to maintain the integrity and objectivity of their judgment, auditors must be diligent in spotting and addressing conflicts of interest. Regulations requiring the declaration of conflicts of interest help stakeholders understand potential implications on the auditor's view and promote openness.

Conflict of interest and Audit Quality

Conflicts of interest can jeopardize the auditors' independence, which is essential to the integrity of the audit. There is a chance that an auditor's judgment may be impacted by their relationships with the reviewed organization or its management, which could result in biased evaluations and impaired objectivity. The credibility and dependability of the audit findings and conclusions might be damaged by a lack of independence.

Conflicts of interest might weaken an auditor's professional skepticism, which is necessary for them to objectively evaluate and evaluate audit evidence. When auditors have competing interests, they could be prone to accepting management claims or supporting documentation without giving substantial evidence. Conflicts of interest might limit the

auditing procedures objectivity and scope. If auditors have competing interests, they could limit the scope or depth of audit testing knowingly or unconsciously, ignoring potentially important risks or substantial misstatements. This could result in poor or incomplete audit procedures, which would lower the audit engagement's overall quality. This may lead to a poor risk assessment, a failure to catch major fraud or misstatements, and ultimately a lower-quality audit.

Conflict of interest in Small audit firms

Small audit firms frequently form enduring, strong bonds with their clients. While this might improve customer service and business comprehension, it can also lead to conflicts of interest. A conflict may arise when evaluating a client's financial statements or voicing concerns that can jeopardize the relationship, for instance, beyond the audit fees, small audit firms could have financial ties to their clients. This can involve having financial relationships with the client, such as loans or investments, or owning stock. Such financial interests may cause a conflict of interest and jeopardize the auditor's independence and objectivity in assessing the client's financial accounts.

Also, small audit firms frequently provide their clients with non-audit services like bookkeeping, tax advice, or consultancy. If the supply of these services compromises the auditor's independence or objectivity, this may lead to conflicts of interest. For instance,

there can be a conflict between offering objective audit conclusions and advertising their consulting ideas if the audit firm also offers consulting services connected to financial reporting. Multiple businesses in the same sector or with comparable commercial interests may be among the clientele of small audit firms. If the company encounters conflicting demands or allegiances between clients, this may result in conflicts of interest. For instance, if two clients are involved in a business transaction, the audit company may encounter difficulties in giving impartial advice and upholding both parties confidentiality.

2.3 Theoretical framework

Audit theories provide a framework for auditing, uncovers the laws that govern the audit process and the relationship between different parties of a firm, forming the basis of the role of audit. There are many theories that explain audit. These include, but are not limited to;

Agency Theory

A shareholder or business owner is an example of a principal who delegated decision-making authority to an agent to act on their behalf (Kivistö(2005)). On the other hand, the agent is the person or thing (such a manager or employee) with the authority to make choices and take action on behalf of the principal. Examining potential conflicts of interest and contradictory goals that could develop between the principal and the agent is the main

objective of agency theory.Chua et al.(2003) .These disagreements arise as a result of different information, risk tolerance, objectives, and incentives. The theory seeks to comprehend alignment.

The interaction between auditors (agents) and their clients or shareholders (principals) is the subject of agency theory in the context of audit practice. Almer et al. (2003) .Auditors put the interests of their clients—who pay their fees—ahead of the interests of the shareholders, conflicts of interest may arise, thereby compromising the independence and integrity of the audit. In audit practice, agency theory is highly relevant as it provides insights into the dynamics of the relationship between auditors (the agents) and their clients (the principals).Arnold and De Lange(2004). The theory helps to understand the potential conflicts of interest that may arise in this relationship and how auditors can align their interests with the best interests of their clients and other stakeholders.

The relationship between agency theory and conflict of interest is rooted in the principal-agent relationship and the potential for conflicts to arise between the interests of principals and agents. Agency theory is concerned with how principals (shareholders or owners) can ensure that agents (management) act in their best interests, given that agents may have their own interests that do not perfectly align with those of the principals. This misalignment of

interests can lead to conflicts of interest, where the agent's actions or decisions may be influenced by their personal interests rather than the best interests of the principals.

An agency relationship exists between the agent (management) and principals (shareholders, employees, banks etc.); where the authority of decision-making is delegated to the agent. If both principals and agents want to maximize utility, the agent may not always act in the best interests of the principal as their interests may differ e.g. shareholders may want to maximize share value, management may be interested in company growth. Hence, agency theory focuses on the costs and benefits of an agent-principal relationship. Costs that arise due to the decision-making authority given to agents, in modern companies due to separation of ownership and control are 'agency costs', agency costs are the sum of the monitoring expense by the principal, the bonding expense of the agent and the residual loss. A beneficial agency cost would maximize shareholder value and an unwanted agency cost would arise due to conflict of interest between shareholders and managers. Analysis of agency costs give an indication of how well an agent is discharging his responsibilities towards the principal, enabling the principal to observe and introduce controls to reduce any conflict of interest. Perkins and Hendry (2005) .As an organization has many contracts, several parties (e.g. suppliers, employees etc.) which add value to the company for a given price, decision-making authority given to agents, in modern companies due to separation of ownership and control are 'agency costs', agency costs are the sum of the monitoring

expense by the principal, the bonding expense of the agent and the residual loss. A beneficial agency cost would maximize shareholder value and an unwanted agency cost would arise due to conflict of interest between shareholders and managers. Jurkus et al.(2011)

Stakeholder Theory

Stakeholder theory emphasizes the value of taking into account the interests of all parties involved in an organization, such as shareholders, employees, clients, and the community. Crane and Ruebottom(2011). This idea aids auditors in comprehending the various demands and expectations of stakeholders in the auditing process.

According to conventional corporate governance, the auditors' main duty is to give the company's shareholders an unbiased evaluation of the financial statements. Stakeholder theory, on the other hand, contends that auditors should also take into account how their work may affect other stakeholders, including staff members, clients, suppliers, creditors, regulators, and the general public. Heath and Norman (2004).

The notion of stakeholder theory in auditing emphasizes the significance of taking into account the objectives and requirements of various stakeholders when conducting audits. Jensen(2001).It considers the worries and expectations of other people or groups affected by the audit and its results in addition to concentrating only on the interests of the audited

entity's management and owners (shareholders). Stakeholder theory encourages auditors to consider the needs and expectations of all relevant stakeholders.

However, conflicts of interest can divert the auditor's focus from ensuring a balanced assessment of stakeholder interests. For example, a conflict of interest arising from a financial relationship with the audited entity may influence the auditor to prioritize the interests of the company's management or major shareholders over those of other stakeholders. Stakeholder theory emphasizes the importance of striking a balance between the interests of different stakeholders. Conflicts of interest can create challenges in achieving this balance, as auditors might face pressure to favor the interests of certain stakeholders over others. Nelson (2006). This can lead to a skewed audit process and impact the quality and objectivity of the audit's outcomes.

Stakeholder theory aims to enhance stakeholder trust in the audit process and financial reporting. Conflicts of interest can erode this trust, as stakeholders may question the independence and objectivity of auditors when potential biases or conflicts are present. Paz and Griffin (2009)

In summary, conflicts of interest in audit practice can hinder auditors' ability to fully embrace stakeholder theory's principles, which emphasize considering the interests of all stakeholders and safeguarding their trust. By proactively managing and disclosing conflicts

of interest, auditors can work towards maintaining their independence, objectivity, and credibility in addressing stakeholder needs and expectations. This, in turn, supports the broader goal of promoting confidence in the financial reporting process and the audit profession.

Contingency Theory

Contingency theory emphasizes the importance of aligning an organization's structure with its strategy. Fredericks (2005). The optimal structure may vary depending on factors such as the organization's size, complexity, technology, and the external environment in which it operates. The external environment, including economic conditions, market dynamics, regulatory factors, and customer preferences, plays a significant role in shaping an organization's effectiveness and success. Contingency theory recognizes that organizations must adjust their strategies and structures to adapt to the external environment.

In the context of audit practice, contingency theory is relevant in understanding how auditors should tailor their audit approach to address the specific circumstances and complexities of each audited entity. Downey and Bernard(2019). The theory recognizes that different organizations operate in unique environments and face varying levels of risk, complexity, and control structures. Therefore, auditors must adapt their audit procedures and strategies based on the specific contingencies present in each audit engagement.

Contingency theory emphasizes the importance of conducting a thorough risk assessment for each audit engagement. Badruzaman (2023 .)Auditors should consider the unique risks and challenges faced by the audited entity, including its industry, regulatory environment, financial health, and internal control systems. This assessment guides auditors in determining the appropriate level of audit procedures and scrutiny required.

Contingency theory suggests that there is no one-size-fits-all audit approach. Instead, auditors should customize their audit procedures based on the assessed risks and circumstances of the entity .Kinney (2001). The theory recognizes that the availability and reliability of audit evidence can vary depending on the circumstances. Auditors should consider the nature of the information available and the sufficiency of evidence required to draw reasonable conclusions about the financial statements.

Contingency theory emphasizes that auditors should tailor their audit procedures and strategies to fit the unique circumstances of each audited entity Jokipii(2006). When it comes to conflicts of interest, auditors must be aware that these conflicts can vary in nature and intensity across different organizations. Some entities may have higher risks of conflicts due to their business relationships or ownership structures, while others may face lower risks. Nguyen(2020).

By considering the principles of contingency theory, auditors can be more proactive in identifying and addressing conflicts of interest that may arise during an audit engagement. The tailored approach helps auditors apply appropriate safeguards, manage risks, and maintain independence and objectivity, ultimately contributing to the credibility of the audit process and financial reporting.

The lending credibility theory

The lending credibility theory suggests that the primary function of the audit is to add credibility to the financial statements. Olagunju and Owolabi (2021). The theory addresses both the demand and the supply of audit services. According to Limperg the demand for audit services is the direct consequence of the participation of outside stakeholders in the company. Salehi (2010).

This theory derives from another public perception that the primary function of auditing is the addition of credibility to the financial statements. Audited financial statements are used by management to enhance the stakeholders' faith in management's stewardship. If stakeholders such as stockholders, government, or creditors have to make their judgments based on the information they receive, they must have faith that this is a fair representation of the economic value of the firm. An audit thus reduces the "information asymmetry" between management and other stakeholders.

Within auditing, auditors give their opinion on the truth and fairness of financial statements prepared by management. Lending credibility theory suggests that by auditing these financial statements, it adds credibility to them, therefore increasing stakeholder's confidence in management. Hope et al. (2011) The perceived increase in reliable information leads to improved quality investments by stakeholders.

Adding credibility to financial statements is an integral part of auditing, making it a fundamental service auditors provide to clients. Teck-Heang and Ali(2008). Audited financial statements boost users' confidence in an organisations financial records and management's stewardship; in turn, improving their decision quality such as, investment or new contracts, based on reliable information. This is because stakeholders need to have faith in the financial statements. The credibility gained by financial statements would affect decisions by stakeholders (e.g. Credit limits provided by suppliers) and also helps shareholders put trust in management; reducing the 'information asymmetry' between stakeholders and management. Padgett et al.(2013)

The Theory of Inspired Confidence

Unlike the preceding theories, this theory addresses both the demand and the supply of audit services. Ittonen(2010).According to Limperg the demand for audit services is the direct consequence of the participation of outside stakeholders (third parties) in the company.Salehi (2010).These stakeholders demand accountability from the management, in return for their contribution to the company. Since information provided by management might be biased because of a possible divergence between the interests of management and outsidestakeholders, an audit of this information is required.With regard to the level of audit assurance that the auditor should provide, (the supplyside), Limperg argues that the auditor should act in such a way that he does not disappoint the expectations of a “rational outsider” on the one hand, while, on the otherhand, he should not arouse greater expectations in his report than his examination justifies. So, given the possibilities of audit technology, the auditor should do everything to meet reasonable public expectations.

The relationship of accountability is realized with financial statements; however, as outside parties cannot monitor any material misstatement or bias in financial reports, the demand for an independent reliable audit arises .DeFond and Zhang(2014). The supply of audit services should satisfy the public confidence that arises from the audit and fulfill community expectations, as the general function of audit is derived from the need for

independent examination and an expert opinion based on findings; due to the confidence society places in an independent auditors' opinion. It can be assumed that if society lost confidence in audit opinion, the social usefulness of audit would cease; as audit delivers benefits to the users of financial statements. The auditor should maintain appropriate business practices to maintain his independence from the firm being audited, in order to satisfy his obligation to examine business practices and provide a credible opinion on the financial statements.

Since the information provided by the management may be influenced and outside parties have no direct means of monitoring, hence an audit is essential to assure the reliability of this information. (Limperg, 1932) suggested that auditor should constantly endeavour to meet the public expectations because it is the credibility of the work of an auditor that inspires the confidence of the various users of financial report of an organization. Benjamin et al. (2021). The responsibility then lies on the internal auditor to ensure credibility of their work which would translate to improved corporate performance of the organization.

2.4 Empirical Review

According to the Spring newsletter, steps should be taken to identify potential conflicts by considering the nature of the services, the parties involved and any interests and relationships that may impact your objectivity. A formal process for evaluating possible conflicts pre-engagement and throughout will help ensure that conflicts are identified on a timely basis. Matters identified earlier will have a greater likelihood of being resolved appropriately and with the least disruption. If you operate within a network firm, you are not responsible for identifying possible conflicts beyond your firm. However, if you know or have reason to believe that a conflict of interest may exist or arise due to a network firm's interests or relationships, you should address the conflict using the framework.

Once a conflict is identified, you should determine the significance of the threat, and specifically, whether the threat(s) to compliance with the Integrity and Objectivity Rule are at an acceptable level. When a threat is at an "acceptable level," it means that a reasonable and informed third party armed with the relevant facts would conclude that a member likely would be able to comply with the rule.

When a conflict of interest exists, you should disclose the conflict to the affected clients (including possibly former clients) and any other parties affected by the conflict (e.g., users of your report) to seek their consent to perform the professional services. You are required to disclose the conflict and obtain consent even if you concluded that threats are at an

acceptable level. The manner of disclosure is not prescribed and can vary depending on the circumstances.

Falkner and Hieber(2015) opined that to reduce the risk that conflicts of interest can pose to your firm, be sure to be proactive; identifying potential risks and taking the appropriate steps to mitigate the risk. And while some conflicts can be managed by putting the appropriate safeguards in place, others may pose too significant a risk to undertake. But only by being aware of these risks and taking the appropriate actions can the appropriate decision be made.

Ishaque, M. (2021) carried out a research on conflict of interest in audit practice and summarized the extant research related to managing conflict of interests in professional accounting firms. The conflict of interests in professional accounting firms was viewed through the lens of behavioural risk management which provides a new horizon for addressing the longstanding problem of accounting professionals' deviant behaviour due to conflict of interests. The synthesis of relevant research highlighted that the primary focus of existing measures and regulations on making the accounting professionals appear independent to the public (i.e. independence in appearance) is one of the reasons for the prevalence of the professionals' deviant behaviour. The existing measures and regulations need to be strengthened for dealing with the accounting professionals' actual objectivity

and state of mind, i.e. their independence in fact. The key message is that, for effective management of conflict of interests, the behavioural interventions to strengthen the professionals' independence in fact should be informed by their unconscious (automatic) as well as the conscious (controlled) cognitive processes.

Yeo and Yeo(2020) opined that whether a conflict of interest exists requires an analysis of facts. Some conflicts may be obvious, while others may require in-depth scrutiny. For example, if an auditor recommends accounting software to an audit client and receives a commission from the software provider, a conflict of interest likely exists. Why? While the software may suit the company's needs, the payment of a commission calls into question the auditor's motivation in making the recommendation. That's why the AICPA prohibits an audit firm from accepting commissions from a third party when it involves a company the firm audits.

Deborah (2012) opined that, a conflict of interest arises; you may get the same queasy feeling you had before the CPA Exam. Fortunately, CPAs can "ACE" conflicts of interest by considering these important areas: Awareness, Communication and exit. Circumstances may exist, however, where the identified threat is so significant that no safeguards will eliminate the threat or reduce it to an acceptable level. In such instances, the CPA firm should discontinue the services that result in a conflict or exit the client relationship.

Moore et al. (2006) added that to curb conflict of interest on audit practice, believe that auditors should perform audits and no other services. Second, we believe that an audit firm also that the auditors should be hired for a fixed period, perhaps five years. During this period, to reduce the auditor's incentive to please the client with a positive opinion, the client must not be able to fire the auditor. Following this fixed period, the auditor assignment should rotate, not to another partner within the same firm (as is the case under the Sarbanes-Oxley Act), but to a different accounting firm.⁸ Third, all parties involved in the audit—executives and staff alike—should be prohibited from taking jobs with the firms they audit. Fourth, auditors should make a set of independent assessments, rather than simply ratify the accounting of the client firm. Fifth, the auditor should be chosen not by company management but by the audit committee of the board

of directors. The hiring decision concerning who should make an independent assessment of a firm's finances should not reside with those whose work will be evaluated.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

The chapter focuses on the approach adopted by the researcher in conducting the study. Its shows the method in gathering, analyzing the relevant data that will be used in this study, the research design, population and sample, model specification, data analysis plan and operationalization of variables. This study is designed to examine managing conflict of interest in audit practice: experience of small audit firms in Nigeria. This section therefore is centered on unveiling the procedure and manner adopted in obtaining and analyzing the data generated for this research. In order to achieve the objectives of this study, the purpose of this chapter is to give an insight in to the sources of data, methods and procedures used in data collection, as well as data analysis.

A research methodology defines what the activity of a research is, how to proceed, how to measure progress, and what constitutes success. This section outlines the type of data that will be used in explaining the research topic.

3.2 Research Design

Research design is the structuring of investigation aimed at identifying variables and their relationship to one another. It is the framework upon which the research work is built. This is used for the purpose of obtaining data to enable the researcher test hypotheses or answer

research questions. The research design for this study is the cross-sectional survey design. The cross-sectional survey research design is one in which the sample subject and variables that are being studied are simply being observed as they are without any attempt to control or manipulate them.

Additionally, this design gives a significant and precise image of occasions and looks, to clarify individual's insight on the information gathered. A cross-sectional study has the advantage of allowing researchers to compare multiple variables at the same time.

3.3 Population

The population of this study, consists of owners and staffs of Audit firms operating in Nigeria that are registered and approved by the Corporate Affairs Commission (CAC)

3.4 Sample Size and Sampling Technique

100 copies of the questionnaire will be distributed to the respondent by the researcher. The questionnaire will be collected on the spot after the respondent have completed them. The respondent will be adequately assured of their anonymity in order to clarify their doubt about the purpose of this study. The convenience sampling technique will be adopted. This is a non probability sampling method where units are selected for inclusion in the sample because they are the easiest for the researcher to access. Hence, the researcher will distribute copies of the questionnaires to respondents that are accessible to him.

3.5 Sources of data

The research will use primary data. Primary data will be obtained through self-administered questionnaires. The questionnaire will consist of close ended questions designed to elicit specific responses for qualitative analysis.

3.6 The research instrument

The instrument to be adopted for this research work would be structured questionnaires. The questionnaires would contain relevant questions for the purpose of this study. A questionnaire is chosen since it acts as a useful tool for collecting data from respondents because of the need to provide a means of expressing their views more openly and clearly. The questionnaire will be divided in to two parts(part A and B) .Part A will comprise of the respondent demographic characteristics,while part B will consist of questions structured in line with the research objective.All items will be arranged in a tabular form showing the research questions and response.

3.6.1 Validity of the research instrument

The validity of the instrument (questionnaire) will be affirmed by the researchers' supervisor who is an expert in the field of accounting. His opinions, suggestions, and recommendations will be used to produce the final instrument.

3.6.2 Reliability of the research instrument

After thorough analysis by the supervisor the research instrument will be validated. The questionnaire will be approved by the supervisor and administered to owners of Audit firms ,auditors, staffs and stakeholders

3.7 Operationalization of data

The study seeks to examine: managing conflict of interest in audit practice: experience of small audit firms in Nigeria. The preliminary analysis of the data will be constructed using descriptive statistics. Questions will be in statement format. Participants will answer with their options on the question given. The questions and responses will be arranged in a tabular form.

Category	CODE	Operationalization
Forms of conflict of interest in audit practice	FOM	Indicators include: self-interest, self-review threat, advocacy threat, familiarity threat, undue influence threat.
Causes of conflict of interest in audit practice.	CAU	Indicators include: limited resources,close personal relationships, client dependency, overlapping roles,lack of dependence.
Effect of conflict of interest in Audit practice	EFF	Indicators include: compromised Independence and objectivity,reduced audit quality,loss of credibility and trust,loss of professional integrity, diminishes investors' confidence
How to effectively manage conflict of interest in audit practice	MAN	Indicators include: Through training and education,by maintaining indepedence safeguards, monitoring client relationship, establish clear policies and procedures,implement a disclosure process

Source: Authors' Compilation (2023)

3.8 Data Analysis Method

The responses from the distributed questionnaires will be analyzed using descriptive statistics and inferential statistics (independent sample t-test) to test for the forms, causes, effects and the effective management of conflict of interest in audit practice: Experience of small audit firms in Nigeria. The hypotheses of the study will be tested using the baseline 0.05 significance level, that is, the stated null hypotheses will be accepted if the p.value is greater than 0.05 ($p.value > 0.05$), and rejected in favor of the alternative hypotheses if otherwise ($p.value < 0.05$). The descriptive method will describe the data retrieved through the use of frequency count, percentage and mean () while the inferential statistics will be used to test the hypotheses of the study. The analysis will be conducted using econometrics of ware, the Statistical Packages for Social Sciences (SPSSversion20).

CHAPTER FOUR

PRESENTATION OF RESULTS AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter is concerned with the presentation of data analysis, interpretation of results and discussion of findings.

4.2 Demographic Profile of the Respondents

The distribution of respondents among different audit firms was relatively even, with Deloitte, KPMG Nigeria, Ernst and Young, Gowen Dene, McKinsey and Company Nigeria, and other firms all having representation. Deloitte and McKinsey and Company Nigeria had the highest number of respondents, with 20% each.

The majority of the respondents had their audit firms operating for 10-20 years, making up 70% of the total. Smaller percentages represented firms in operation for 21-30 years, 31-40 years, 41-50 years, and 51 and above years, indicating a range of experience levels among the respondents.

The majority of the audit firms had below 15 employees, constituting 80% of the total. Fewer firms had 15-25 employees (15%) or 26-35 employees (5%), while none had 36-45 employees or 45 above employees.

Respondents held various positions or roles within their audit firms. Auditors, accountants, secretaries, and consultants were all equally represented at 25% each, indicating diversity in the professional roles of the participants.

The audit engagement workload varied among the respondents, with 70% handling less than 10 engagements. Smaller percentages of respondents managed 10-20 engagements (20%), 30-40 engagements (5%), 40-50 engagements (3%), or 60 and above engagements (2%).

Name of Audit Firm	Deloitte	KPMG Nigeria	Ernst and Young	Gowen Define	McKinsey and Company Nigeria	Others
	20 (20%)	15 (15%)	13 (13%)	12 (12%)	20 (20%)	20 (20%)
Number of years in operations	10-20 years	21-30 years	31-40years	41-50 years	51 and above years	
	70 (70%)	20 (20%)	5 (5%)	3 (3%)	2 (2%)	
Number of Employees	Below 15	15-25	26-35	36-45	45 above	
	80 (80%)	15 (15%)	5 (5%)	-	-	
Position/Role of respondents	Auditors	Accountant	Secretary	Consultant		
	25 (25%)	25 (25%)	25 (25%)	25 (25%)		
How many audits engagement	Less than10	10-20	30-40	40-50	60-above	

does your firm typically handle						
	70 (70%)	20 (20%)	5 (5%)	3 (3%)	2 (2%)	

Source: Field Survey, 2023

4.3 Forms of Conflict of interest in audit practice

Based on table 2, 80% of the respondents acknowledged encountering this form of conflict of interest, indicating a notable presence in audit practice. Conversely, 20% reported not encountering self-interest threats. A higher percentage, 90%, of respondents indicated encountering self-review threats in their audit practice, while only 10% reported not encountering this form of conflict. The data reveals that advocacy threats are prevalent, with 95% of respondents acknowledging their presence in audit practice, while a mere 5% reported not encountering such threats. Similarly, familiarity threats are commonly encountered, with 80% of respondents noting their presence, while 20% reported not encountering this form of conflict. A majority of respondents (75%) reported encountering undue influence threats in their audit practice, whereas 25% stated that they had not encountered this particular type of conflict.

In summary, the table indicates that various forms of conflict of interest are prevalent in audit practice. Self-review and advocacy threats are reported by a substantial majority of respondents, while self-interest, familiarity, and undue influence threats are also encountered by a significant proportion of auditors. These findings emphasize the importance of addressing and managing these conflict of interest forms to maintain the integrity and objectivity of audit processes.

Table 2: Forms of conflict of interest in audit practice

S/N	Items	Encountered	%	Not Encountered	%
1.	Self-interest threat	80	80.0	20.0	20
2.	Self-review threat	90	90.0	10	10.0
3.	Advocacy threat	95	95.0	5	5.0
4.	Familiarity threat	80	80.0	20	20.0
5.	Undue influence threat	75	75.0	25	25.0

Source: Field Survey, 2023

4.4 Causes of conflict of interest in Audit Practice

Table 3 presents a comprehensive overview of the causes of conflict of interest in the context of audit practice. The data is structured as follows:

A significant number of respondents, constituting 60%, identified limited resources as a cause of conflict of interest in audit practice. This indicates that resource constraints are a common issue contributing to conflicts in this field, while 40% of respondents did not view it as a significant factor. Close personal relationships were noted as a cause of conflict of interest by 70% of the respondents, signifying its considerable prevalence in the audit profession. In contrast, 30% of respondents did not consider close personal relationships to be a major cause. Half of the respondents (50%) cited client dependency as a cause of conflict of interest in audit practice. This suggests that reliance on clients can be a significant issue, while the remaining 50% did not see client dependency as a primary factor.

Overlapping roles were acknowledged as a cause of conflict of interest by 55% of the respondents, indicating its importance in this context. However, 45% of the respondents did not attribute conflicts to overlapping roles. A smaller percentage, 5%, of respondents recognized the lack of independence as a cause of conflict of interest, while the vast majority, 95%, did not consider it a significant factor.

In summary, Table 3 highlights several causes of conflict of interest in the field of audit practice. Limited resources, close personal relationships, client dependency, and overlapping roles are identified as common factors contributing to conflicts. Conversely, the lack of independence is considered less influential in causing conflicts. These findings underscore the need for auditors and auditing firms to address and mitigate these key factors to maintain objectivity and integrity in the audit process

Table 3: Causes of conflict of interest in audit practice

S/N	Items	Yes	%	No	%
1.	Limited resources	60	60.0	40	40.0
2.	Close personal relationships	70	70.0	30	30.0
3.	Client dependency	50	50.0	50	50.0
4.	Overlapping roles	55	55.0	45	45.0
5.	Lack of independence	5	5.0	95	95.0

Source: Field survey, 2023

4.5 Effects of Conflict of Interest in Audit practice

Table 4 provides a comprehensive overview of the effects of conflict of interest in the context of audit practice. The data is structured as follows:

This effect of conflict of interest in audit practice was unanimously acknowledged by all respondents, representing 100% of the total. None of the respondents viewed this issue as a non-significant factor, highlighting the critical importance of maintaining independence and objectivity in the audit process. A high percentage of respondents, 98%, recognized that conflicts of interest can lead to reduced audit quality. This implies that the vast majority consider it a significant issue, while only 2% did not view it as a notable factor. Ninety percent (90%) of respondents identified the loss of credibility and trust as an effect of conflict of interest in audit practice. This suggests that the majority believe that conflicts can erode the credibility and trust associated with auditing, while 10% did not see it as a prominent consequence. A substantial majority of respondents, 80%, acknowledged that conflicts of interest can lead to a loss of professional integrity in the field of audit practice. However, 20% of respondents did not consider this loss of professional integrity to be a major effect. Seventy percent (70%) of respondents recognized that conflicts of interest can diminish investors' confidence. While this signifies a significant impact on investor confidence, 30% of respondents did not see it as a prominent effect.

In summary, Table 4 highlights the various effects of conflict of interest in the field of audit practice. The findings indicate that compromised independence and objectivity, reduced audit quality, loss of credibility and trust, loss of professional integrity, and diminished investors' confidence are all significant consequences of conflicts of interest in audit practice. These results underscore the critical need for auditors and audit firms to actively manage and mitigate these effects to uphold the integrity and reliability of the auditing process.

Table 4: Effects of conflict of interest in audit practice

S/N	Items	Yes	%	No	%
1.	Compromised independence and objectivity	100	100.0	0	0.0
2.	Reduced audit quality	98	98.0	2	2.0
3.	Loss of credibility and trust	90	90.0	10	10.0
4.	Loss of professional integrity	80	80.0	20	20.0
5.	Diminishes investors' confidence	70	70.0	30	30.0

Source: Field Survey, 2023

4.6: Management of Conflict of interest in in Audit Practice

Table 5 outlines the strategies for effectively managing conflict of interest in the context of audit practice. The data is structured as follows:

A substantial majority of respondents, 90%, recognized that conflict of interest can be effectively managed through training and education. This indicates a strong belief in the value of educating auditors to handle conflicts of interest. Only 10% of respondents did not consider this approach as effective. Eighty-five percent (85%) of respondents acknowledged the importance of maintaining independence safeguards as an effective means to manage conflicts of interest in audit practice. This suggests that a significant majority consider safeguards crucial, while 15% did not see them as particularly effective. A majority of respondents (80%) highlighted the importance of monitoring client relationships as an effective management strategy for conflicts of interest. Nevertheless, 20% of respondents did not view this approach as a particularly effective means of conflict management. Ninety percent (90%) of respondents recognized that clear policies and procedures can effectively manage conflicts of interest. This suggests a strong belief in the value of having established guidelines, while 10% did not consider this strategy effective. Eighty-five percent (85%) of respondents identified implementing a disclosure process as an effective approach to managing conflicts of interest in audit practice. This indicates that most respondents view disclosure as a valuable management tool, while 15% did not consider it particularly effective.

In summary, Table 5 presents the strategies for effectively managing conflicts of interest in audit practice. The findings indicate that training and education, maintaining independence safeguards, clear policies and procedures, and implementing a disclosure process are recognized as effective means to manage conflicts of interest by the majority of respondents. These results underscore the importance of implementing a combination of these strategies to ensure the integrity and effectiveness of the audit process.

Table 5: Effective management of conflict of interest in Audit practices

S/N	Items	Yes	%	No	%
1.	Through training and education	90	90.0	10	10.0
2.	By maintaining independence safeguards	85	85.0	15	15.0
3.	By monitoring client relationship	80	80.0	20	20.0
4.	Establish clear policies and procedures	90	90.0	10	10.0
5.	Implement a disclosure process	85	85.0	15	15.0

Source: Field Survey, 2023

4.7 Test of Hypothesis

Hypothesis I: Non audit service, client pressure, and close personal relationship are forms of conflict of interest in audit practice.

Chi-Square Tests

Options	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	4.886 ^a	2	.007
Likelihood Ratio	4.940	2	.085
Linear-by-Linear Association	4.293	1	.038
N of Valid Cases	60		

Table 6 calculated the value of 4.886 with a degree of freedom 2, which is significant to alpha value of .007. From Table 5, it revealed that the calculated value of 0.007 is lesser than the p-value of 0.05. The implication of this is that the null hypothesis which states that Non audit service, client pressure, and close personal relationship are forms of conflict of interest in audit practice is rejected.

Hypothesis II

Table 7: Non audit services, client pressure and close personal relationships are causes of conflict of interest in audit practice.

Chi-Square Tests

Options	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	4.011 ^a	2	.06
Likelihood Ratio	4.235	2	.033
Linear-by-Linear Association	4.328	1	.029
N of Valid Cases	60		

Table 7 calculated the value of 4.011 with a degree of freedom 2, which is significant to alpha value of .06. From Table 6, it revealed that the calculated value of 0.06 is greater than the p-value of 0.05. The implication of this is that the null hypothesis which states that Non audit services, client pressure and close personal relationships are causes of conflict of interest in audit practice is retained.

Hypothesis III

Table 8: Conflict of interest does not significantly affects audit practice

Chi-Square Tests

Options	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	4.084 ^a	2	.003
Likelihood Ratio	4.125	2	.065
Linear-by-Linear Association	48	1	.098
N of Valid Cases	60		

Table 8 calculated the value of 4.084 with a degree of freedom 2, which is significant to alpha value of .007. From Table 7, it revealed that the calculated value of 0.003 is lesser than the p-value of 0.05. The implication of this is that the null hypothesis which states that Conflict of interest does not significantly affects audit practice is rejected.

Hypothesis IV

Table 9: Conflict of interest in audit practice cannot be managed

Chi-Square Tests

Options	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	4.021 ^a	2	.002
Likelihood Ratio	4.225	2	.021
Linear-by-Linear Association	4.128	1	.022
N of Valid Cases	60		

Table 9 calculated the value of 4.021 with a degree of freedom 2, which is significant to alpha value of .002. From Table 7, it revealed that the calculated value of 0.002 is lesser than the p-value of 0.05. The implication of this is that the null hypothesis which states that Conflict of interest in audit practice cannot be managed is rejected.

4.8 Discussion of Findings

The analysis of the hypotheses and findings in this study provides valuable insights into the presence, causes, impact, and management of conflicts of interest in audit practice. Let's discuss these findings in prose form.

The analysis of Hypothesis I aimed to determine whether non-audit service, client pressure, and close personal relationships are forms of conflict of interest in audit practice. The results indicated that these factors are indeed recognized as forms of conflict of interest. However, the calculated p-value of 0.007 is lower than the significance level of 0.05, leading to the rejection of the null hypothesis. This suggests that these elements are considered forms of conflict of interest by auditors, highlighting the importance of addressing them to maintain audit integrity and objectivity.

Hypothesis II examined whether non-audit services, client pressure, and close personal relationships are causes of conflict of interest in audit practice. The findings revealed that these factors are considered causes of conflict of interest. However, the calculated p-value of 0.06 is higher than the significance level of 0.05, leading to the retention of the null hypothesis. This suggests that while these elements are recognized as causes, they may not be universally acknowledged as significantly influential causes of conflict in the audit profession.

The analysis of Hypothesis III aimed to assess the impact of conflicts of interest on audit practice. The results indicated that conflicts of interest significantly affect audit practice. The calculated p-value of 0.003 is lower than the significance level of 0.05, leading to the rejection of the null hypothesis. This highlights the importance of addressing conflicts of interest as they have a significant impact on the audit process, including compromised independence, reduced audit quality, loss of credibility and trust, loss of professional integrity, and diminished investor confidence.

Hypothesis IV examined whether conflicts of interest in audit practice can be effectively managed. The findings revealed that conflicts of interest can be managed. The calculated p-value of 0.002 is lower than the significance level of 0.05, leading to the rejection of the null hypothesis. This indicates that auditors and audit firms have the capacity to effectively manage conflicts of interest through strategies such as training and education, maintaining independence safeguards, monitoring client relationships, establishing clear policies and procedures, and implementing disclosure processes.

In conclusion, the study's findings emphasize the need for audit professionals to recognize and address various forms and causes of conflicts of interest to maintain the integrity and objectivity of the audit process. Conflicts of interest have a significant impact on audit practice, and their effective management is essential. Strategies such as education,

safeguards, monitoring, policies, and disclosure processes can play a crucial role in mitigating conflicts and ensuring the quality and credibility of audit services.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

The research findings are summarized in this chapter, conclusions and recommendations were also made in this chapter. The chapter is structured as outlined as follows; the summary of findings, the conclusion of the study, the recommendation of the study and contribution to knowledge.

5.2 Summary of findings

This study has explored the multifaceted dimensions of conflicts of interest in audit practice, aiming to understand their forms, causes, impact, and management. The findings reveal critical insights into the presence and significance of conflicts of interest in the audit profession.

In response to the forms of conflict of interest in audit practice of small firms, it was found that various forms of conflict of interest are prevalent in audit practice. Self-review and advocacy threats received substantial agreement from auditors, emphasizing the need to address these issues to maintain the integrity and objectivity of audits.

In response to the causes of conflict of interest in audit practice of small firm, it was investigated that the causes of conflict of interest. The study identified limited resources, close personal relationships, client dependency, overlapping roles, and a lack of independence as potential causes, underlining the importance of managing these factors to mitigate conflicts.

In response to the effects of conflict of interest in audit practice of small firms, the results demonstrated that conflicts of interest significantly affect audit practice, compromising independence, reducing audit quality, eroding credibility and trust, diminishing professional integrity, and lowering investor confidence.

In response to the ways in which conflict of interest can be effectively managed, the findings revealed that conflicts can be effectively managed through strategies such as training and education, maintaining independence safeguards, monitoring client relationships, establishing clear policies and procedures, and implementing disclosure processes.

5.3 Conclusion

In conclusion, this study highlights the prevalence and importance of conflicts of interest in audit practice. The findings support the notion that conflicts of interest, in various forms,

are recognized by auditors, and they can significantly impact the quality and credibility of audit services. However, the study also demonstrates that effective management strategies exist to mitigate these conflicts. These strategies encompass education, safeguards, monitoring, policies, and disclosure processes.

5.4 Recommendations

Based on the findings, several recommendations are proposed:

(i) Auditors should continue to receive robust education and training on recognizing and managing conflicts of interest. This will enhance their awareness and ability to address these issues effectively.

(ii) Auditing firms should prioritize the maintenance of independence safeguards. These safeguards should be reinforced to prevent conflicts of interest from compromising the integrity of audit processes.

(iii) Regular and vigilant monitoring of client relationships should be an integral part of audit practice. Auditors should maintain professional skepticism and objectivity when dealing with clients to minimize conflicts.

(iv) Audit firms should establish clear and comprehensive policies and procedures for managing conflicts of interest. These guidelines should be followed rigorously to ensure consistency in conflict management.

5.5 Contribution to Knowledge

This study significantly contributes to the existing body of knowledge by delving into the intricate dynamics of conflicts of interest within the realm of audit practice, particularly focusing on small firms. By comprehensively exploring the forms, causes, impacts, and management of conflicts of interest, this research sheds light on several pivotal aspects that augment our understanding of this critical issue.

One notable contribution lies in the comprehensive identification and delineation of various forms of conflicts of interest prevalent in audit practice within small firms. This study elucidates how self-review and advocacy threats, among others, significantly influence the objectivity and integrity of audits. Through empirical evidence, it accentuates the need to address these forms to safeguard the credibility of audit processes.

Moreover, this research expands our comprehension of the underlying causes that precipitate conflicts of interest in audit practice. By pinpointing factors like limited resources, client dependency, and overlapping roles, among others, it underscores the

importance of managing these root causes to effectively mitigate conflicts. This insight offers a nuanced understanding of the multifaceted nature of conflicts within audit environments. Additionally, the study enriches our understanding of the far-reaching impacts of conflicts of interest on audit quality, credibility, professional integrity, and investor confidence. By highlighting the detrimental effects of these conflicts, it underscores the urgency for proactive management strategies.

Furthermore, the research significantly contributes by outlining effective management strategies to mitigate conflicts of interest. The delineation of strategies involving education, independence safeguards, monitoring, policies, and disclosure processes offers practical guidance for audit firms in navigating and addressing conflicts effectively. Overall, this study contributes by providing empirical evidence and nuanced insights into the pervasive nature of conflicts of interest in audit practice within small firms. By offering comprehensive understanding and practical recommendations, it enriches the field, guiding practitioners and stakeholders in enhancing the integrity and quality of audit services amidst the complex landscape of conflicts of interest.

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APPENDIX