

AUDITOR-CLIENT RELATIONSHIP AND AUDIT QUALITY
A CASE STUDY OF LAPO MICROFINANCE BANK



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***BEING A RESEARCH PROJECT WRITTEN AND SUBMITTED TO THE
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THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE (B.Sc.)
DEGREE IN ACCOUNTING.***

JULY, 2025.

DECLARATION

I, **IFUEKO QUEEN OSARUONAMEN**, declare that this project work is entirely my own work and composition. The work embodied in this project has not been submitted in candidature for any degree and is not concurrently being submitted for any other degree. All references made to the works of other persons have been duly acknowledged.

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CERTIFICATION

This is to certify that this project research was carried out by **IFUEKO QUEEN OSARUONAMEN**, Matriculation number: **MGS1814393** in the Department of Accounting, Faculty of Management Science, University of Benin, Benin City, Edo state, Nigeria. It is adequate in scope and quality in partial fulfilment of the requirement for the award of bachelor of science (BSc.) degree in accounting.

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DEDICATION

I express my profound gratitude and heartfelt appreciation to the Almighty God for His grace upon me, enabling the successful completion of this endeavour.

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I wish to express my profound gratitude and honor to Almighty God, the source of my strength, wisdom, and inspiration. Without His divine guidance and blessings, this study would not have been possible. I am deeply thankful for His unwavering support throughout the entire research journey. I would like to extend my deepest gratitude to my supervisor, Prof. Ofiafoh Eiya, for his exceptional guidance, intellectual insights, and steadfast support. His invaluable advice and dedication have been instrumental in shaping this work. I am truly fortunate to have had such a dedicated supervisor. My sincere appreciation also goes to the Head of the Department, Professor Osasu Osaretin, for his leadership and for fostering an environment that encourages academic excellence. I am equally grateful to the Project Coordinator, Dr. Uyi Obazee, and all the lecturers in the Department of Accounting, as well as the entire Faculty of Management Sciences, for their intellectual support and encouragement throughout my study.

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ABSTRACT

This study examines the effect of the auditor-client relationship on audit quality in Nigerian microfinance institutions, using LAPO Microfinance Bank in Edo State as a case study. The main objective is to assess how auditor professionalism, communication, and independence influence audit quality and financial transparency. The study adopted a descriptive survey research design, with data collected from 50 respondents including auditors, audit managers, and finance staff directly involved in LAPO's audit process. A structured questionnaire was used to obtain primary data, which were analysed using descriptive statistics, correlation analysis, and multiple regression techniques with SPSS.

The study finds that auditor professionalism positively and significantly improves audit quality by enhancing ethical conduct, competence, and adherence to auditing standards. Effective communication between auditors and clients strengthens mutual understanding and promotes accurate financial reporting. Auditor independence also has a significant positive impact, ensuring objectivity and reducing the risk of bias or undue influence from clients.

The study recommends that microfinance institutions should reinforce auditor independence through strict policies and periodic rotation of auditors. Continuous professional development and ethics training should be prioritized to strengthen professionalism. Furthermore, establishing clear and open communication channels between auditors and management will help to improve audit quality, strengthen stakeholder confidence, and support regulatory compliance.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Audit quality remains a critical pillar in achieving financial transparency and safeguarding stakeholder confidence in both public and private institutions. In today's rapidly evolving financial landscape, especially within emerging economies like Nigeria, the effectiveness of audits depends significantly on the dynamics of the auditor-client relationship. The auditor's ability to remain objective, professional, and independent plays a vital role in ensuring that financial statements reflect a true and fair view of an organization's financial health (Okolie et al., 2021). In Nigeria, audit quality has gained increased attention due to persistent challenges with financial misreporting, regulatory lapses, and public distrust in financial disclosures. Although the Financial Reporting Council of Nigeria (FRCN), Central Bank of Nigeria (CBN), and professional bodies such as ICAN and ANAN have rolled out frameworks to enhance auditing standards, issues such as auditor independence, weak communication, and over-familiarity between auditors and clients continue to pose threats to audit quality (Emenyi, 2024). These concerns are even more pronounced in the microfinance sector, where institutions operate closer to the informal financial system and often lack robust internal controls.

Microfinance banks play a crucial role in promoting financial inclusion in Nigeria. They provide essential financial services to low-income earners, small business owners, and rural populations who are traditionally excluded from mainstream banking services. Given this social and economic function, the reliability of financial statements in microfinance institutions is not just a regulatory requirement but a developmental necessity. However, ensuring high audit quality in this sector has become increasingly challenging. Many microfinance banks operate under tight financial margins and may exert undue influence on

auditors to understate losses or exaggerate income, all of which can compromise audit quality (Mgbobi et al., 2024).

A central factor influencing audit quality is the auditor-client relationship, which encompasses key elements such as professionalism, communication, and independence. When managed well, these components can enhance audit credibility. For instance, effective communication between auditors and clients leads to better understanding of expectations, less ambiguity, and a smoother audit process (Babalola et al., 2025). Similarly, professionalism—characterized by ethical conduct, competence, and adherence to auditing standards—is essential for executing audits that can stand up to public and regulatory scrutiny. Conversely, compromised auditor independence, especially when influenced by familiarity, long-term relationships, or financial incentives, can reduce the auditor's objectivity and willingness to challenge questionable practices (Anaba et al., 2024).

Globally, the International Federation of Accountants (IFAC) and the International Auditing and Assurance Standards Board (IAASB) have emphasized auditor independence and scepticism as core values of audit quality (IAASB, 2022). However, applying these principles in practice, particularly in developing contexts like Nigeria, remains difficult due to contextual factors such as low auditor fees, weak enforcement of standards, and political or managerial pressure. In many Nigerian microfinance banks, auditors may face dilemmas when trying to balance their ethical duty with client expectations. This ethical strain can affect audit outcomes and reduce the credibility of financial statements (Kokogho et al., 2025).

Despite growing research interest in audit quality, much of the literature has focused on variables such as audit fees, audit tenure, and firm size. Limited empirical work has been conducted to explore how the relational dynamics between auditors and clients, specifically professionalism, communication, and independence, impact audit quality, especially in

microfinance banks in developing economies (Musau & Omar, 2025). This presents a clear research gap, which this study intends to address.

LAPO Microfinance Bank, the case study for this research, represents a compelling example. As one of Nigeria's largest and most active microfinance banks, LAPO operates a wide network of branches and serves thousands of low-income clients. Given its scope of operations and regulatory importance, ensuring audit quality at LAPO is essential not just for compliance but also for protecting the integrity of its financial system. Exploring how auditor-client relationship elements function in such a setting provides valuable insights into broader audit quality dynamics in the Nigerian microfinance sector.

This study is therefore timely and relevant. By examining how auditor professionalism, communication practices, and independence affect audit quality at LAPO Microfinance Bank, this research contributes both practically and academically. On a practical level, it will help improve audit strategies, strengthen regulatory compliance, and guide training efforts for auditors in Nigeria. On an academic level, it will bridge an existing research gap and support policy advocacy for enhanced audit practices in microfinance institutions.

1.2 Statement of the Research Problem

Audit quality is central to the credibility of financial reporting, and its importance is particularly pronounced in developing economies like Nigeria. Audit reports, which stakeholders rely on to make informed decisions, are only valuable when they accurately reflect the financial standing of the institution in question. However, in Nigeria, the microfinance sector where financial institutions such as LAPO Microfinance Bank play a crucial role, has faced challenges regarding the quality and reliability of audit reports. Many microfinance institutions, despite their pivotal role in financial inclusion, struggle with ensuring audit quality due to the unique dynamics of their operations and the often complex relationships between auditors and clients. The auditor-client relationship has been identified

as one of the factors that can significantly influence the outcome of an audit, particularly in terms of professionalism, communication, and independence (Okolie et al., 2021; Emenyi, 2024). However, it remains unclear whether these relational dynamics are the main contributors to the observed problems in audit quality in Nigerian MFIs.

The concern regarding audit quality extends beyond the mere technicalities of auditing standards to a more fundamental issue: whether the audit reports produced can be considered reliable and truthful. Audit failures in the Nigerian financial sector, such as the collapse of Skye Bank in 2016, exposed systemic deficiencies in audit practices, including auditors' failure to identify financial mismanagement and irregularities. Skye Bank's eventual insolvency was attributed to significant issues with its financial reporting, compounded by ineffective audit practices. Similarly, audit failures within microfinance institutions, including LAPO Microfinance Bank, have raised serious questions about the effectiveness of audits in providing stakeholders with truthful insights into the financial state of these institutions. While audit quality is supposed to ensure that financial reports present an accurate depiction of an institution's performance, in many instances, these reports have failed to reflect underlying issues such as fraud, financial mismanagement, and non-compliance with regulatory standards (Gul et al., 2023). This is particularly problematic in microfinance institutions like LAPO, where financial transparency is vital for gaining the trust of investors, regulators, and the public.

The impact of poor audit quality extends beyond misreporting of financial data. Inaccurate or misleading audit reports can have profound effects on the decision-making of various stakeholders. For instance, investors may base their decisions on faulty audit reports, potentially resulting in financial losses or reduced investments in institutions that are not financially sound. Regulators may also struggle to monitor and control the financial health of microfinance institutions, thereby affecting the overall financial stability of the sector. The

reliability of audit reports has become a pressing concern as financial mismanagement continues to plague Nigeria's microfinance sector, calling into question the effectiveness of auditing practices and the ability of auditors to maintain independence while working with their clients.

Despite these ongoing challenges, much of the existing literature has focused on general factors such as audit fees, audit tenure, and audit firm size as determinants of audit quality. However, there is a significant gap in the research regarding how the auditor-client relationship influences audit outcomes, particularly within microfinance institutions in Nigeria. While some studies have identified auditor independence as a key factor affecting audit quality (Babalola et al., 2022), there has been insufficient attention to how professionalism, communication, and long-term relationships between auditors and their clients can influence audit outcomes. The lack of empirical studies focusing on these relational aspects, particularly in the context of Nigerian microfinance banks, presents a significant gap in the literature that this research aims to address.

To date, most research on audit quality in Nigeria has been sector-general, examining large commercial banks or corporate entities. However, the microfinance sector operates under distinctive constraints, including limited financial resources, weaker internal controls, and heightened pressures to present a favourable financial position to regulators and investors. This creates a different environment from more traditional financial institutions. There is a need to understand how these conditions influence the audit process in MFIs and whether the dynamics between auditors and clients exacerbate the challenges of ensuring audit quality in this sector. As such, this study will focus on LAPO Microfinance Bank in Edo State, Nigeria, as a case study. LAPO is a leading microfinance bank with a significant client base, and its financial reporting practices are crucial not only for regulatory compliance but also for maintaining the trust of its stakeholders. This makes LAPO an ideal institution for

investigating the interplay between auditor-client relationships and audit quality. This research will specifically investigate whether the issues surrounding audit quality in microfinance institutions, such as those observed in LAPO, can be attributed to auditor-client relationship dynamics, particularly the professionalism, communication, and independence of auditors. The relationship between auditors and clients in this context is of paramount importance because auditors must navigate the fine line between maintaining objectivity and providing value-added services to clients. If these relationships become too cozy or compromised, the quality of audits can suffer, ultimately affecting the financial stability of the institution and the overall health of the sector.

This study aims to fill the existing gap in the literature by focusing on how the auditor-client relationship influences audit quality at LAPO Microfinance Bank. By addressing this gap, the research will provide valuable insights that could enhance audit quality and regulatory compliance within Nigeria's microfinance sector. Furthermore, the findings will contribute to the academic understanding of audit practices in developing economies, specifically in microfinance institutions, and will offer recommendations for improving the effectiveness of audits in the sector.

1.3 Research Questions

The study is guided by the following research questions:

1. How does auditor professionalism influence audit quality at LAPO Microfinance Bank?
2. What role does communication between auditors and clients play in ensuring high-quality audits at LAPO Microfinance Bank?
3. To what extent does auditor independence affect audit quality at LAPO Microfinance Bank?

1.4 Objective of the Study

The main objective of this study is to examine the relationship between the auditor-client relationship and audit quality at LAPO Microfinance Bank in Edo State, Nigeria.

Specifically, the study aims to:

1. Explore the relationship between auditor professionalism and audit quality at LAPO Microfinance Bank.
2. Investigate how communication between auditors and clients influences audit quality at LAPO Microfinance Bank.
3. Examine the relationship between auditor independence and audit quality at LAPO Microfinance Bank.

1.5 Research Hypotheses

The study formulated the following null hypotheses to provide guidance:

H01: There is no significant relationship between auditor professionalism and audit quality at LAPO Microfinance Bank.

H02: There is no significant relationship between communication between auditors and clients and audit quality at LAPO Microfinance Bank.

H03: There is no significant relationship between auditor independence and audit quality at LAPO Microfinance Bank.

1.6 Scope of the Study

This study examines the relationship between the auditor-client relationship and audit quality at LAPO Microfinance Bank, focusing specifically on how auditor professionalism, communication, and independence influence the audit process. The research targets auditors and relevant staff members involved in the auditing activities at LAPO, as well as other stakeholders who interact with the auditing process. This study is limited to LAPO Microfinance Bank in Edo State, Nigeria, due to its significant role in Nigeria's microfinance

sector and its extensive operations in the region. The study specifically focuses on how auditor-client relationship dynamics within LAPO influence audit outcomes, particularly in terms of audit quality, financial transparency, and stakeholder trust. The research excludes other microfinance institutions and broader financial sectors, as the aim is to provide a focused case study on LAPO. The research uses primary data collected through questionnaires distributed to auditors, staff, and management at LAPO Microfinance Bank. By concentrating on LAPO Microfinance Bank, the study provides a context-specific understanding of the auditor-client relationship and its influence on audit quality in the Nigerian microfinance sector. The findings from this study offer valuable insights into auditing practices, specifically related to microfinance institutions, which remain underexplored in existing research.

1.7 Significance of the Study

This study is significant from both academic and practical perspectives. From an academic perspective, this study contributes to the body of literature on audit quality and the auditor-client relationship, particularly in the context of microfinance institutions in developing economies like Nigeria. While existing studies focus on auditor independence and audit practices in larger institutions, this study fills a critical gap by examining how the dynamics of the auditor-client relationship, specifically professionalism, communication, and independence influence audit quality in the microfinance sector. It provides new insights into the role these relationships play in improving or undermining the quality of audits within this unique and vital sector.

From a practical standpoint, this study offers valuable insights for regulatory bodies, audit firms, and microfinance institutions in Nigeria. The findings help improve audit practices, particularly the management of auditor-client relationships, which are critical for ensuring audit objectivity and financial transparency. By identifying the key relationship dynamics that

influence audit quality, the study provides actionable recommendations for improving auditing standards in Nigeria's microfinance sector, promoting accountability and trust among stakeholders. Additionally, the study contributes to the development of policy guidelines and auditor training programs, ensuring that microfinance institutions uphold the highest standards of audit integrity. This research also holds practical value for auditing professionals who use its findings to enhance their practices, particularly in developing economies where the auditor-client relationship plays a pivotal role in the audit process.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a comprehensive review of existing literature related to the auditor-client relationship and its influence on audit quality, particularly within the context of microfinance institutions in Nigeria. The review is structured to first define key concepts such as audit quality, auditor professionalism, and auditor independence, followed by an exploration of theoretical frameworks and empirical studies. It aims to identify the gaps in the literature, demonstrating the need for further research into how relational dynamics between auditors and clients impact the effectiveness of audits, especially in microfinance banks like LAPO Microfinance Bank. By synthesizing relevant studies, this chapter provides the foundation for the research questions and hypotheses, establishing the theoretical basis for the study.

2.2 Conceptual Review

2.2.1 Audit Quality

Audit quality is a fundamental concept in the accounting profession, denoting the ability of an audit to provide assurance that financial statements fairly represent the true state of a company's financial health. In global contexts, the International Federation of Accountants (IFAC) and the International Auditing and Assurance Standards Board (IAASB) emphasize that high audit quality is achieved through auditor independence, professional scepticism, and the adoption of rigorous auditing standards (IAASB, 2022). In Nigeria, the Financial Reporting Council (FRCN) and professional bodies like the Institute of Chartered Accountants of Nigeria (ICAN) define audit quality similarly, though they also highlight the need for effective regulatory frameworks to ensure compliance in an environment often fraught with challenges, such as weak internal controls and low auditor fees (Emenyi, 2024).

The definition of audit quality varies slightly by jurisdiction, but common themes include auditor independence, competence, adherence to professional standards, and the ability to detect material misstatements in financial reports. In Nigeria, audit quality is further influenced by institutional and structural challenges that affect audit processes in both large banks and microfinance institutions (MFIs) like LAPO Microfinance Bank (Mgbobi et al., 2024).

Dimensions and Indicators of Audit Quality

Audit quality is typically assessed through several key dimensions, which include:

Auditor Independence: The degree to which auditors remain free from client influence, ensuring objective judgment.

Professionalism and Competence: Auditors' ability to apply their skills, knowledge, and judgment in evaluating financial statements.

Adherence to Standards: Compliance with recognized standards such as International Standards on Auditing (ISA) and Nigerian regulations.

Audit Firm Characteristics: The reputation and size of the audit firm, as larger firms often have more resources to conduct thorough audits.

Effective communication between auditors and clients also plays a vital role in audit quality, ensuring that auditors understand the client's financial situation and that there are no misunderstandings regarding audit expectations (Kokogho et al., 2025). A lack of proper communication or familiarity between auditors and clients can undermine audit objectivity, making it harder for auditors to challenge misleading practices or inaccuracies in financial statements. Regulatory bodies such as the FRCN, ICAN, and IAASB provide frameworks for auditors to follow in order to ensure high audit quality. The FRCN, for example, enforces compliance with Nigerian financial reporting standards and ensures that audits conducted in Nigeria meet the required quality standards. However, despite these efforts, audit quality in

Nigeria is often hindered by weak enforcement mechanisms, conflicts of interest, and low auditor fees, which result in compromises on objectivity and audit thoroughness (Gul et al., 2023). The IAASB's emphasis on auditor independence and scepticism has also highlighted the importance of maintaining the integrity of audit outcomes globally, though implementing these principles in Nigeria's microfinance sector remains a challenge due to the informal nature of some institutions (Emovon & Ogbonmwan, 2024).

Common Challenges to Achieving Audit Quality in MFIs

In microfinance institutions, including LAPO Microfinance Bank, audit quality faces unique challenges. MFIs typically operate in environments with limited financial resources, inadequate internal controls, and frequent pressures from clients to present favourable financial outcomes (Mgbobi et al., 2024). These challenges can lead to compromises in audit processes, as auditors may face conflicts between maintaining professional independence and meeting client expectations (Emovon & Ogbonmwan, 2024). Furthermore, the small scale and financial pressures of MFIs often mean that auditors may be less experienced or face high turnover rates, reducing the overall effectiveness of audits (Salisu et al., 2021). Audit quality is directly linked to financial credibility, which in turn affects stakeholder trust. Stakeholders, including investors, regulators, and customers, rely heavily on audited financial statements to make informed decisions about an institution's financial health (Okolie et al., 2021). When audits fail to accurately reflect the financial position of an institution, it erodes trust and can lead to reputational damage, legal consequences, and financial losses. In the case of microfinance institutions, poor audit quality can hinder their ability to secure investment and regulatory approval, ultimately limiting their capacity to serve low-income clients and fulfil their social mission (Anaba et al., 2024).

The microfinance sector in Nigeria faces significant challenges in maintaining high audit quality. These challenges stem from factors such as inadequate regulatory oversight, financial

pressures on MFIs to meet performance targets, and a lack of resources for conducting thorough audits. Moreover, the close relationships between auditors and clients in small, community-based MFIs can result in compromised independence, where auditors may overlook or fail to report irregularities due to longstanding ties with clients (Mgbobi et al., 2024). In this context, microfinance institutions like LAPO may experience compromised audit outcomes due to the lack of effective audit controls, insufficient audit rotation policies, and weak auditor-client communication (Kokogho et al., 2025). These issues reduce the overall quality of audits and undermine the trust that stakeholders place in the financial reports produced by these institutions. For LAPO Microfinance Bank, ensuring high-quality audits is not only crucial for regulatory compliance but also for maintaining the trust of its diverse stakeholders. As one of Nigeria's largest and most prominent MFIs, LAPO's financial statements are closely scrutinized by regulators, investors, and the public. High audit quality ensures that LAPO's financial reports are transparent, reliable, and accurately reflect its financial position, which is essential for maintaining stakeholder confidence and attracting investments.

Additionally, effective audits help identify areas for operational improvement, detect financial mismanagement, and ensure compliance with regulatory standards. For LAPO to continue playing its vital role in financial inclusion and poverty alleviation, maintaining high audit standards is critical to ensuring the integrity of its operations and safeguarding its long-term viability (Okolie et al., 2021).

2.2.2 Auditor-Client Relationship

The auditor-client relationship refers to the professional interaction and dynamics between the auditor and the client (the audited entity), which significantly influences the outcome of the audit process. This relationship is essential for ensuring that auditors remain objective and independent while carrying out their duties. The auditor's role is to verify the financial

statements and report any material misstatements, discrepancies, or fraud. For this reason, the nature of the auditor-client relationship must be based on trust, transparency, and ethical standards (Okolie et al., 2021).

However, the nature of this relationship can evolve over time, particularly in long-term engagements where familiarity between the auditor and client may lead to challenges in maintaining objectivity (Suhaib & Farooq, 2011). In the context of Nigerian microfinance institutions (MFIs) like LAPO Microfinance Bank, the auditor-client relationship plays a critical role in maintaining the credibility and integrity of the financial reports, especially when these institutions face immense pressures from clients to portray a favourable financial image (Emovon & Ogbonmwan, 2024). In an ideal scenario, the auditor-client relationship should be governed by professionalism and ethical conduct, with clear boundaries that prevent conflicts of interest and ensure that the auditor's judgment remains impartial. Professionalism in this context involves adherence to standards, independence from the client's financial interests, and ethical behaviour, ensuring that auditors are free to make unbiased decisions (Owolabi & Babarinde, 2020). Ethical conduct, as defined by the International Federation of Accountants (IFAC) and Institute of Chartered Accountants of Nigeria (ICAN), is paramount in preserving the quality and integrity of the audit process (FRCN, 2022).

For auditors working in Nigerian microfinance institutions, it is crucial to uphold these boundaries despite the close relationships that may form due to long-term engagements or familiarity with management (Anaba et al., 2024). Violating these ethical boundaries can compromise the audit quality, as auditors may be reluctant to challenge the financial misstatements or risky practices requested by the client (Gul et al., 2023).

Trust and familiarity are essential components of the auditor-client relationship. However, when familiarity leads to excessive closeness between the auditor and client, it may result in

conflicts of interest and the risk of auditors becoming too lenient in their judgments. Familiarity with the client can cause auditors to develop biases that undermine their objectivity (Suhaib & Farooq, 2011). This is particularly problematic in microfinance institutions, where financial performance pressures are high and the auditor-client relationship can become more personal and less professional over time (Salisu et al., 2021).

The positive aspect of trust within the auditor-client relationship is that it enables open communication and collaboration, which can lead to more accurate financial reporting. However, if trust turns into over-familiarity, auditors may begin to overlook potential risks or fail to challenge management's financial assertions, thereby undermining the reliability and quality of the audit (Ogbodo & Akabuogu, 2018). Maintaining a balance of trust and professional distance is critical for preserving the integrity of the audit process, particularly in the context of financial institutions like LAPO Microfinance Bank.

Risks of Compromised Objectivity

One of the greatest risks in any auditor-client relationship is the potential for compromised objectivity. This can occur when auditors become too familiar with the client and their financial practices, which makes it difficult to remain unbiased when evaluating financial records. In Nigeria's microfinance sector, where financial margins are often tight and regulatory oversight is weak, auditors may face pressures from clients who expect favourable audit outcomes. Over time, this can lead to ethical lapses, where auditors may intentionally or unintentionally overlook material misstatements or fraud (Emovon & Ogbonmwan, 2024).

Furthermore, the client's influence over the auditor's independence can be exacerbated by financial incentives, such as auditor fees and client retention efforts. These pressures can lead to auditors compromising their professional integrity in order to maintain a positive relationship with the client (Kokogho et al., 2025). The importance of maintaining objectivity and the willingness to challenge questionable financial practices cannot be overstated,

especially in institutions that play a critical role in financial inclusion, such as microfinance banks.

The relational environment in microfinance banks is often marked by close-knit relationships between auditors and clients. These banks, such as LAPO, typically operate on limited budgets, which means auditors often deal with senior management who might have long-standing ties to the firm. This closeness can foster an environment where auditors may face challenges in maintaining their independence (Mgbobi et al., 2024). Moreover, in the microfinance sector, where clients often have unique and diverse financial needs, auditors may struggle to balance their duties of ensuring financial transparency while meeting the client's expectations for profitability and business continuity (Okolie et al., 2021). This complexity necessitates a strong ethical framework to manage the relational dynamics effectively, ensuring that auditors do not fall victim to client pressures that could negatively influence the audit outcome.

2.2.3 Auditor Characteristics

Auditor characteristics are pivotal to understanding audit quality, particularly in the context of microfinance banks where financial integrity and regulatory compliance are paramount. The characteristics of auditors significantly influence the audit outcomes in these institutions. The primary auditor characteristics include experience, professional competence, ethical conduct, training, and certification, all of which are essential for the delivery of a robust and reliable audit process. Audit quality is closely tied to the experience and training of auditors. Experienced auditors are better equipped to detect inconsistencies, evaluate financial statements accurately, and ensure compliance with relevant regulations. According to Bamidele et al. (2019), experienced auditors exhibit greater proficiency in identifying financial discrepancies, reducing the likelihood of errors or fraud in the audit report. Training further enhances their ability to apply auditing standards and effectively manage the

complexities of microfinance institutions (MFIs) (Asogwa & Okwu, 2018). Certified auditors are also more likely to adhere to industry standards and ethical guidelines, ensuring the quality of the audit process (Akinyemi & Ojo, 2020).

Professional Competence and Regulatory Compliance

Professional competence involves the auditor's technical ability to conduct audits in line with accepted auditing standards. In Nigeria's microfinance sector, auditors are expected to comply with regulations set forth by institutions such as the Financial Reporting Council of Nigeria (FRCN) and the International Auditing and Assurance Standards Board (IAASB). The competence of auditors is further linked to their ability to understand the regulatory framework governing microfinance operations and ensure that the financial statements are not only accurate but also comply with these standards (Lauwo & Olatunde, 2010). A study by Dabor and Uyagu (2018) found that auditors with in-depth knowledge of these regulations contribute significantly to the quality of financial reporting and audit outcomes in microfinance banks.

Ethical Standards and Integrity

Ethical standards play an essential role in shaping audit quality. Auditors' ethical conduct influences their objectivity, independence, and commitment to ensuring accurate financial reporting. The integrity of auditors is crucial, particularly in the microfinance sector, where fraud risks and financial mismanagement are prevalent. As noted by Jibrin et al. (2021), auditors who maintain high ethical standards are less likely to compromise objectivity, thus enhancing the credibility of the audit process. The importance of auditor integrity in maintaining trust in financial reporting cannot be overstated. In the context of Nigeria's microfinance banks, auditors are tasked with safeguarding stakeholder interests and preventing financial misreporting, which requires adherence to ethical codes and professional standards (Gole et al., 2020).

Auditor Scepticism and Behaviour

Auditor scepticism, the tendency to question the veracity of financial statements and detect potentially fraudulent activity is another crucial characteristic. Auditors in the microfinance sector must exhibit professional scepticism to identify discrepancies that may not be apparent at first glance. This scepticism, combined with a thorough understanding of microfinance operations, helps auditors uncover underlying issues that may compromise the financial integrity of these institutions. In the study by Efiog et al. (2022), auditors' behavioural traits, such as their responsiveness to management requests and their assertiveness in challenging questionable financial practices, were shown to significantly impact audit quality in Nigeria's microfinance sector.

The Role of Auditor Attitude and Responsiveness

The attitude and responsiveness of auditors during audits are essential in influencing the final audit outcome. Auditors who are proactive in their approach, detail-oriented, and responsive to concerns raised by stakeholders contribute to a more rigorous audit process. In particular, auditors who engage in continuous communication with microfinance management ensure that any issues are promptly addressed, which enhances the reliability of the audit findings (Akinyemi et al., 2019). The responsiveness of auditors can help to reduce audit delays and improve the overall efficiency of the audit process, which is particularly important in the fast-paced and complex microfinance environment. The characteristics of auditors—such as their experience, ethical standards, competence, scepticism, and behaviour—play a crucial role in ensuring the quality of audits in Nigeria's microfinance sector. These attributes not only help auditors in identifying financial discrepancies but also enhance the credibility of financial reporting, thereby fostering trust among stakeholders in microfinance institutions.

2.2.4 Client-Related Characteristics

Client-related characteristics are essential factors that influence the audit process and, consequently, the quality of audits in microfinance banks. These characteristics encompass the size and structure of the client organization, management pressure, financial complexity, and the level of transparency and openness during the audit process.

Nature of the Client Organization

The size and complexity of microfinance institutions (MFIs) directly impact the audit process. Larger MFIs, with more extensive operations and financial transactions, require auditors with specialized knowledge and greater expertise to handle the complexities involved. As noted by Lasebikan et al. (2021), the financial complexity of MFIs increases the challenges auditors face in ensuring accurate financial reporting. Smaller microfinance institutions, on the other hand, may have limited resources and staff, which can affect the thoroughness of the audit process. The organizational structure of these institutions also determines the level of cooperation and transparency auditors can expect during the audit (Olusola & Akinyemi, 2019).

Management Pressure and Audit Expectations

Management pressure is a significant factor influencing the audit process. In many cases, management may exert pressure on auditors to deliver favourable audit outcomes. This pressure can undermine the objectivity of the audit process, especially when auditors are reluctant to challenge management's practices due to concerns about client relationships or future business engagements. The study by Dabor and Uyagu (2020) found that when auditors are faced with pressure from microfinance management, there is an increased risk of compromised objectivity, which ultimately affects audit quality. The expectations of management regarding the audit outcomes also shape how auditors approach their work, with some auditors opting for less stringent audit procedures to meet client expectations (Giwa et al., 2020).

Client Transparency and Openness

The level of transparency and openness displayed by the client during the audit process plays a crucial role in the overall audit quality. In microfinance institutions, transparency involves providing auditors with access to relevant financial information, internal controls, and operational processes. When clients are open and cooperative, auditors are better equipped to conduct thorough audits and assess the financial health of the institution. Conversely, a lack of transparency can hinder the auditors' ability to identify potential fraud or financial discrepancies (Oladipo & Ojo, 2022). As observed by Akinyemi et al. (2020), transparency in financial reporting is crucial for achieving high-quality audits in MFIs.

Financial Distress and Influence on Auditor Pressure

Financial distress is another client-related characteristic that can impact the audit process. Microfinance banks facing financial difficulties may be more likely to manipulate their financial statements to present a more favourable picture to external stakeholders, including investors and regulators. This financial stress can lead to increased pressure on auditors to overlook certain discrepancies or to provide more lenient audit findings. According to Iyaniwura and Akinyemi (2021), auditors must be particularly diligent when dealing with distressed MFIs, as the financial pressures can compromise audit quality if not managed appropriately.

Client Cooperation and Audit Objectivity

Client cooperation is essential for maintaining audit objectivity. The cooperation between the client and the auditor is vital for ensuring a smooth audit process. Clients who provide accurate and timely information enable auditors to assess financial performance and internal controls effectively. The level of cooperation from the client also influences the auditor's ability to conduct an independent and objective audit (Olusola et al., 2020). Studies have shown that when there is a high level of cooperation, auditors are more likely to conduct

thorough audits that accurately reflect the financial status of the microfinance institution (Akinyemi et al., 2021).

In summary, client-related characteristics such as the size, structure, financial complexity, management pressure, transparency, and cooperation—directly impact the audit process and, consequently, the quality of audits conducted in Nigeria’s microfinance sector. Auditors must carefully navigate these factors to ensure they provide an independent and objective assessment of the client’s financial health.

2.2.5 Auditor Professionalism

Auditor professionalism encompasses several critical components, including ethical behaviour, technical competence, and responsibility. These elements serve as the backbone of any successful audit, ensuring that auditors conduct their work with integrity, competence, and adherence to established standards. According to Owolabi and Babarinde (2020), ethics involves maintaining independence and objectivity, while competence refers to the auditor's technical ability to evaluate financial statements effectively. Responsibility entails the auditor's duty to follow auditing standards, ensuring that the financial reports are accurate and reliable.

In microfinance institutions (MFIs) like LAPO, auditors must also demonstrate professional judgment and independence, which are integral to their role in safeguarding the financial transparency of the institution (Mgbobi et al., 2024). Maintaining professionalism is crucial in a sector prone to financial mismanagement and fraud, where auditors must confront ethical dilemmas and external pressures.

Professionalism in auditing enhances the credibility of financial statements by ensuring that audits are conducted objectively and in accordance with international standards. When auditors uphold high standards of competence and ethics, stakeholders such as regulators, investors, and clients—develop greater trust in the financial reports. According to Efiong et

al. (2022), professional conduct in auditors boosts the credibility of the audit outcomes, ensuring that they accurately reflect the financial state of the microfinance institution. In the context of LAPO, where transparency and trust are vital, professionalism plays a key role in reassuring stakeholders that the audit findings are reliable and independent. Ethical lapses and unprofessional behaviour can have severe repercussions on audit quality, particularly in sectors like microfinance, where financial integrity is closely scrutinized. When auditors fail to maintain objectivity or allow external pressures to influence their judgments, it compromises the quality of the audit and erodes stakeholder trust. For instance, auditors in microfinance institutions may face pressure from management to understate financial misstatements or overlook fraudulent activities to maintain business relationships (Gul et al., 2023). These lapses can lead to inaccurate financial reporting, which undermines the credibility and reliability of the audit process (Gole et al., 2020). Thus, auditors must adhere to high ethical standards and maintain professionalism to avoid the consequences of unprofessional conduct.

Nigerian auditing standards, as set out by the Financial Reporting Council of Nigeria (FRCN) and ICAN, emphasize the importance of auditor professionalism in ensuring high-quality audits. These standards highlight auditor independence, objectivity, and the need to avoid conflicts of interest (Salisu et al., 2021). In practice, auditors are required to follow ethical codes that stress transparency, responsibility, and the need to report financial irregularities honestly. For example, the ICAN Code of Ethics mandates that auditors must always maintain professional scepticism and avoid being influenced by the client's interests (Emovon & Ogbonmwan, 2024). The adherence to these standards ensures that auditors can conduct unbiased, objective audits, critical for enhancing audit quality in Nigerian microfinance institutions.

At LAPO Microfinance Bank, professionalism is essential in maintaining high standards of audit quality. Given the institution's pivotal role in financial inclusion, auditors must engage with management and other stakeholders with the utmost professionalism. This involves clear communication of audit procedures, adherence to ethical guidelines, and providing unbiased reports, even when under pressure from clients (Kokogho et al., 2025). LAPO's financial reporting and internal controls depend heavily on the professionalism of its auditors, who must ensure that all findings are accurately reported, irrespective of management influence or external pressures.

2.2.6 Auditor-Client Communication

Communication between auditors and clients is an integral part of the audit process. Effective communication ensures that auditors understand the client's financial situation, the challenges they face, and any concerns that may arise during the audit process. Communication can take various forms, including verbal (e.g., meetings and discussions), written (e.g., audit reports, memos), and both formal and informal exchanges (Emenyi, 2024). Formal communication is often used to convey official audit findings, while informal communication may involve discussions that help auditors understand the client's expectations or any internal challenges.

In the case of LAPO, maintaining clear communication, both formal and informal, allows auditors to collect accurate financial data, align audit expectations, and foster trust between the auditor and management (Gole et al., 2020).

Importance of Clear, Timely, and Transparent Communication

Clear, timely, and transparent communication is essential for a successful audit. It ensures that auditors and clients are on the same page, reducing the chances of misunderstandings and enhancing the accuracy of audit reports. According to Dabor and Uyagu (2018), transparent communication about audit processes and potential risks is crucial for both auditors and clients. This transparency allows for efficient audit planning and enhances the overall audit

quality. In microfinance institutions, where clients may not always be forthcoming with financial information, auditors must ensure that their communication encourages full disclosure and openness from management (Salisu et al., 2021).

Effective communication is particularly critical in the stages of audit planning and risk discussions. Before conducting the audit, auditors need to understand the risks the institution faces and the specific areas that require more attention. According to Owolabi & Babarinde (2020), proper communication during these stages helps auditors design appropriate audit procedures that address potential risks. Additionally, post-audit feedback is essential to assess how well the audit process was managed and to communicate any areas for improvement. Feedback also provides insight into the audit process and enhances the relationship between auditors and clients, which can lead to better cooperation in subsequent audits.

Communication breakdowns between auditors and clients can have significant adverse effects on audit outcomes. Misunderstandings or lack of clear communication can lead to incomplete or inaccurate financial data, which in turn affects the audit quality. As noted by Alabi (2021), when auditors fail to communicate effectively with management, the audit may miss key issues that require attention, such as financial misstatements or internal control deficiencies. In microfinance institutions, where resources are often limited and operational complexities are high, communication breakdowns can compromise the reliability of the audit report (Mgbobi et al., 2024). In the audit fieldwork phase, communication is crucial for gathering relevant data and understanding the context of the client's financial situation. As Suhaib and Farooq (2011) argue, auditors need to interact regularly with clients to ensure they have the most up-to-date information. This helps auditors to assess the accuracy of financial statements and make informed decisions. Effective communication also ensures that any issues or concerns raised during the audit are addressed promptly, improving the overall quality of the audit report.

2.2.7 Auditor Independence

Independence is a cornerstone of audit quality. Independence in fact refers to the auditor's ability to conduct the audit without being influenced by external or internal pressures, while independence in appearance relates to the perception that the auditor is objective and unbiased. According to IAASB (2022), maintaining both types of independence is critical to upholding the credibility and reliability of audit outcomes.

Types of Independence: Personal, Organizational, Operational

Auditor independence can be categorized into three types:

Personal Independence: Ensuring that auditors maintain personal objectivity and are not influenced by relationships with clients.

Organizational Independence: Ensuring that audit firms are structured and operate in a way that prevents conflicts of interest.

Operational Independence: Refers to the autonomy auditors have in making decisions during the audit, free from management interference.

Threats to Independence (Long Tenure, Fee Dependency, Familiarity) Several factors pose threats to auditor independence. These include long tenure with a client, which may result in familiarity and a lack of objectivity (Kokogho et al., 2025). Fee dependency, where auditors depend heavily on a client for revenue, can also compromise independence. Additionally, familiarity or over-familiarity between the auditor and client can lead to biases in decision-making (Emovon & Ogbonmwan, 2024). These threats can weaken the audit's objectivity, ultimately affecting the quality of audit evidence and conclusions. IAASB, IFAC, and ICAN Guidelines on Maintaining Independence The International Auditing and Assurance Standards Board (IAASB), IFAC, and ICAN have developed guidelines to maintain auditor independence. These standards emphasize the need for audit rotation, adherence to ethical codes, and prohibition of non-audit services for audit clients. According to IAASB (2022),

these measures are designed to minimize conflicts of interest and ensure that auditors remain objective throughout the audit process.

Independence has a direct impact on the decision-making process and the quality of audit evidence. When auditors are independent, they are more likely to challenge questionable financial reporting and make unbiased judgments based on the facts. This leads to more reliable and accurate audit findings (Mgbobi et al., 2024). Conversely, compromised independence can result in weak decision-making, missed discrepancies, and the failure to detect fraudulent practices, undermining the credibility of the financial reports.

2.2.8 Summary of the Conceptual Review

This conceptual review has examined the key factors affecting audit quality in microfinance institutions, including auditor professionalism, auditor-client communication, and auditor independence. Each of these components plays a crucial role in shaping the outcomes of audits, particularly in the context of Nigerian microfinance banks like LAPO Microfinance Bank.

By analysing the dynamics of these relationships, it is clear that auditor professionalism helps maintain the credibility and trust of financial reports, effective communication ensures accurate data gathering and reporting, and independence preserves the objectivity necessary for high-quality audits. The interactions between auditors and clients are central to the overall audit process, and ensuring that these relationships are managed ethically and professionally is vital for achieving the intended outcomes. This review emphasizes the importance of these relational dynamics, especially in the context of LAPO Microfinance Bank, where maintaining audit quality is essential for regulatory compliance and financial transparency.

2.3 Theoretical Review

Theoretical frameworks are essential for understanding how auditor-client relationships influence audit quality, particularly in the context of microfinance banks like LAPO

Microfinance Bank. The theories provide a conceptual foundation for analysing the dynamics of the audit process, highlighting the challenges auditors face in maintaining objectivity and independence. This review examines three critical theories: Agency Theory, Role Conflict Theory, and Stakeholder Theory. Among them, Agency Theory serves as the primary framework, as it addresses issues of corporate governance, auditor independence, and accountability, which are central to this study.

2.3.1 Agency Theory

Agency Theory, first developed by Jensen and Meckling (1976), explores the principal-agent relationship that exists between principals (shareholders or stakeholders) and agents (managers or auditors). In the context of auditing, the theory suggests that agency conflicts arise when there is a misalignment between the interests of the auditors and their clients. Auditors, as agents, are tasked with representing the interests of shareholders or other stakeholders by ensuring that financial statements are accurate and reflect the true financial state of the organization. However, when managers (or clients) influence auditors to present favourable financial reports, conflicts can occur, compromising audit quality (Jensen & Meckling, 1976).

Agency Theory directly applies to auditing, where auditors must act as independent third parties to provide assurance on the fairness of financial statements. The theory emphasizes the role of governance structures in reducing agency costs by ensuring that auditors remain independent and objective, free from undue influence by management (Ogbodo & Akabuogu, 2018).

In the microfinance sector, where financial transparency is crucial for stakeholder trust, auditors must navigate these conflicts to provide accurate and unbiased reports, ensuring audit quality. For LAPO Microfinance Bank, Agency Theory underscores the importance of independence and professionalism in auditing. As an MFI that plays a significant role in

financial inclusion in Nigeria, LAPO's audit reports must be free from any biases or undue influence from management. Agency conflicts may arise when management exerts pressure on auditors to understate financial mismanagement or distort financial results to appear more favourable to investors or regulators (Mgbobi et al., 2024). By applying Agency Theory, this study explores how governance mechanisms, such as board structure, audit committee independence, and auditor tenure, can help mitigate these conflicts and enhance audit quality. Agency Theory is intrinsically linked to audit quality and independence. Strong governance structures, as recommended by the theory, ensure that auditors remain independent and act in the best interests of shareholders and stakeholders. Independent auditing boards and regulatory frameworks help ensure that auditors are not compromised by the client's financial interests (Emovon & Ogbonmwan, 2024). At LAPO, a clear separation of roles and independent oversight can help ensure that auditors are able to perform their duties without external pressures, thus maintaining high audit quality and independence.

One of the strengths of Agency Theory is its ability to explain the mechanisms of auditor independence and managerial oversight, which are crucial for maintaining audit quality in MFIs (Lasebikan et al., 2021). However, a key criticism of Agency Theory is its narrow focus on financial stakeholders, often overlooking the interests of other key stakeholders such as employees, regulators, and the broader community (Babalola et al., 2025). While it provides an excellent foundation for understanding the relationship between auditors and clients, it may not fully capture the complexities of auditor-client relationships in the context of social responsibility and financial inclusion in MFIs.

2.3.2 Role Conflict Theory

Role Conflict Theory posits that auditors often face multiple roles and expectations, both as independent professionals tasked with ensuring objectivity and as service providers catering to the client's needs (Kokogho et al., 2025). Auditors are expected to balance the conflicting

roles of objective evaluator and client service provider, which can lead to ethical dilemmas and compromised audit quality when not managed carefully.

Challenges Faced by Auditors in Balancing Objectivity and Client Expectations

Auditors often struggle to maintain objectivity when clients exert pressure for favourable audit outcomes. In MFIs, where financial survival and regulatory compliance are closely tied to perceived financial health, management may push auditors to understate losses or overstate profits. This creates a tension between the auditor's duty to provide an unbiased report and the client's desire to project financial stability (Efiong et al., 2022). Role Conflict Theory helps explain how auditors' dual roles, one as a service provider and the other as an independent evaluator, can lead to compromised audit judgments.

In Nigerian microfinance institutions, role conflict is particularly evident due to the close relationships that often develop between auditors and management. Auditors may face pressure to overlook financial mismanagement or fraud to maintain the business relationship (Mgbobi et al., 2024). Role Conflict Theory provides insights into how these challenges affect audit quality, emphasizing the need for clear professional boundaries and independent decision-making to preserve the objectivity of the audit process. Conflicting roles often result in auditors making compromises in their judgments, which can adversely affect the quality of the audit. For example, when auditors feel pressured to present favourable results, they may avoid reporting material misstatements or fail to challenge management decisions that may be financially risky. This compromises the integrity of the audit and diminishes stakeholder confidence in the financial statements (Oladipo & Ojo, 2022).

2.3.3 Stakeholder Theory

Stakeholder Theory, introduced by Freeman (1984), asserts that corporations must address the needs and concerns of all stakeholders, not just shareholders. In the context of auditing, this theory emphasizes the need for auditors to consider the interests of employees, investors,

regulators, and other parties when conducting audits. Stakeholder Theory challenges the traditional focus on shareholder value and stresses the importance of engaging with a broader range of stakeholders (Babalola et al., 2025). Auditors play a crucial role in protecting stakeholder interests by ensuring that financial reports are accurate and transparent. Through SDG disclosures and corporate sustainability reporting, auditors provide stakeholders with the information needed to assess the environmental, social, and governance performance of organizations (Efiong et al., 2022). This aligns with the growing demand for transparency and accountability in organizations, especially within sectors like microfinance that play a critical role in financial inclusion.

Transparency is vital to building trust between the corporation and its stakeholders. For MFIs like LAPO, providing clear and reliable audit reports fosters stakeholder confidence and strengthens relationships with investors, customers, and regulatory bodies. As noted by Owolabi & Babarinde (2020), transparency in auditing, particularly in the microfinance sector, is crucial for meeting regulatory expectations and aligning with stakeholder demands for financial transparency.

Stakeholder Theory emphasizes that corporate accountability is strengthened when firms engage with their stakeholders transparently. Auditors who uphold the principles of accountability ensure that MFIs like LAPO are held responsible for their financial reporting and operational decisions. This improves the quality of audits and ensures that financial reports reflect the true financial state of the institution, which is essential for regulatory compliance and maintaining trust in the microfinance sector (Salisu et al., 2021).

2.3.4 Summary of Theoretical Review

This theoretical review has examined three critical theories that shed light on the auditor-client relationship and audit quality: Agency Theory, Role Conflict Theory, and Stakeholder Theory. Each theory provides valuable insights into the dynamics that influence audit quality

in microfinance institutions, such as LAPO Microfinance Bank. Agency Theory focuses on the conflicts of interest between auditors and clients and the governance mechanisms necessary to ensure independence and transparency in audits. Role Conflict Theory explains how auditors navigate conflicting expectations from clients while maintaining objectivity. Finally, Stakeholder Theory emphasizes the importance of stakeholder engagement and the need for auditors to ensure accountability and transparency in financial reporting.

Together, these theories provide a comprehensive understanding of how governance structures, auditor behaviour, and client relationships impact audit outcomes. The combination of these perspectives will guide this study in analysing the role of auditor-client relationships in ensuring high-quality audits at LAPO Microfinance Bank.

2.4 Empirical Review

Kottaris (2018) examined the influences of auditor-client relationships on earnings quality in European firms. The study employed a regression analysis on 3,000 firm-year observations between 2012 and 2016. Findings revealed that high audit fees were associated with better audit quality, suggesting that stronger financial relationships between auditors and clients lead to more rigorous audits. However, the study also highlighted that the increased provision of non-audit services reduced auditors' resistance to earnings manipulation in certain contexts. Kottaris emphasized the need for more stringent oversight in environments where client pressures could undermine audit quality.

Indah (2022) investigated how auditor competence and independence affect audit quality. The study utilized a survey approach with 79 auditors from 18 audit firms in Semarang City, analysing factors such as client pressure, experience, and non-audit services. The research concluded that while auditor experience and peer reviews positively influenced audit quality, client pressures, including financial and emotional influences, had a detrimental effect on auditor independence, ultimately compromising audit quality. Indah recommended

implementing better regulatory frameworks to protect auditor independence and enhance audit outcomes.

Sari (2018) studied the relationship between client business strategy and audit quality, using a sample of 150 firms. The research found that auditors specializing in specific industries tend to produce higher quality audits when the client's business strategy deviates from industry norms. However, the study also identified that client business strategies could either strengthen or weaken the relationship between auditor specialization and audit quality. Sari's findings emphasized the importance of aligning auditors' expertise with the client's strategic needs to ensure robust audit processes.

Marsely (2020) explored how audit quality impacts client satisfaction in non-profit organizations in Indonesia. Through a survey of 293 non-profit organizations, the study revealed that client satisfaction was significantly influenced by auditor expertise and responsiveness to client needs. However, factors such as auditor scepticism and adherence to ethical standards were found to have little to no impact on client satisfaction. Marsely suggested that improving client relationship management (CRM) within auditing firms could lead to better cooperation and, ultimately, more accurate audits.

Aghazadeh and Hoang (2020) conducted an experimental study on how audit firm emphasis on client relationship quality influences auditors' inferences about and responses to potential persuasion attempts by clients. The study found that when auditors perceived high levels of client persuasion, they were more likely to engage in less rigorous audit practices, especially when relationship quality was emphasized. These results indicate that auditors' reliance on client-provided information may reduce the objectivity of audit judgments, compromising audit quality. The authors recommended training auditors to better navigate client relationships and resist undue influence.

Eutsler et al. (2019) examined the effects of auditor scepticism on client relationships and audit quality. Their experiment showed that high levels of scepticism towards clients created ill will, which negatively affected the auditor-client relationship and reduced the quality of financial reporting. The study found that auditors who maintained strong interpersonal relationships with clients were able to mitigate the negative effects of scepticism. Eutsler et al. (2019) suggested that auditors should balance scepticism with a supportive relationship to avoid deteriorating audit quality.

Sitorus et al. (2020) explored the factors affecting audit quality in Indonesia, with a focus on professionalism, ethics, and client acceptability. The study used Structural Equation Modelling (SEM) to analyse data from 176 respondents across 41 public accountant offices. The researchers found that the implementation of professional ethics significantly enhanced audit quality, while client acceptability acted as a mediating factor in improving audit outcomes. The study recommended promoting ethical standards and client management practices to enhance audit quality in the Indonesian context.

Surya et al. (2021) investigated the impact of auditor ethics on audit quality in a review of existing literature. The study revealed that ethical conduct, such as integrity and objectivity, is crucial for improving audit quality. However, the researchers noted that some studies showed conflicting results regarding the direct relationship between ethics and audit quality. The study emphasized the importance of organizational culture and ethical training in ensuring high audit standards.

Amerongen et al. (2022) conducted a study on the coherence between auditor-client relationship quality and auditor tenure with client perceptions of added value in SME audits in the Netherlands. The research showed that a strong relationship between auditors and clients, combined with long-term tenure, positively influenced client perceptions of the value

provided by the audit. The study concluded that building long-term relationships with clients enhances auditors' knowledge of the client's business, leading to improved audit quality.

Mao et al. (2023) examined the impact of an individual auditor's client portfolio scale and scope on audit quality in China. Using data from auditor-years between 2001 and 2016, the study found that auditors with larger client portfolios provided higher quality audits, especially in terms of detecting irregularities. However, auditors with a wide range of client industries showed lower audit quality, indicating that auditors' ability to manage diverse portfolios may diminish as their workload increases. The study highlighted the need for auditors to focus on managing their client portfolios effectively to maintain high-quality audits.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter outlines the research methodology adopted to examine the impact of the auditor-client relationship on audit quality at LAPO Microfinance Bank in Edo State, Nigeria. The chapter provides a comprehensive overview of the research design, population of the study, sampling techniques, sample size, research instruments, data collection procedures, and data analysis methods. The chosen methodology is specifically tailored to ensure that the study's objectives are met and that the data collected is both reliable and valid. It will provide an accurate reflection of the impact that the auditor-client relationship has on the quality of audits at LAPO Microfinance Bank.

3.2 Research Design

This study adopts a descriptive survey research design, which is well-suited for investigating the relationship between key aspects of the auditor-client relationship, such as professionalism, communication, and independence, and audit quality. A descriptive survey design enables the systematic collection of quantitative data from respondents, which facilitates the identification of patterns, trends, and relationships that influence audit quality. The survey approach is ideal for this study because it allows for the collection of data from auditors and key staff members at LAPO Microfinance Bank in a structured manner. By utilizing a well-constructed questionnaire as the primary tool for data collection, this study will focus on quantifying the influence of professionalism, communication, and independence on audit outcomes. The design ensures that the data collected will be relevant, measurable, and aligned with the study's objectives of understanding how the dynamics of the auditor-client relationship affect audit quality within the microfinance sector.

3.3 Population of the Study

The population for this study comprises individuals directly involved in the audit process at LAPO Microfinance Bank. This includes both internal and external auditors, as well as key management staff who interact with auditors during the audit process. These participants play an integral role in the audit decision-making process, making their insights vital for understanding the auditor-client relationship and its influence on audit quality. Given their direct involvement with auditing practices at LAPO, these participants are best suited to provide relevant and accurate data for this research.

3.4 Sampling Technique and Sample Size

This study employs a purposive sampling technique to select participants who are specifically involved in the auditing process at LAPO Microfinance Bank. Purposive sampling is appropriate for this research because it allows for the selection of individuals with the relevant expertise and direct experience concerning the central factors of the study: auditor professionalism, communication, and independence. These elements are crucial to understanding how the auditor-client relationship impacts the quality of audits.

A sample size of 50 participants will be selected for the study. This sample size is deemed sufficient to capture a wide range of perspectives from key stakeholders involved in the audit process. The purposive sampling technique, combined with the chosen sample size, will allow for a robust, reliable, and comprehensive collection of data, ensuring that the study's findings are reflective of the real-world dynamics at LAPO Microfinance Bank.

3.5 Model Specification

The study examines the relationship between auditor professionalism, communication, independence, and audit quality at LAPO Microfinance Bank. The following regression model is specified to analyse these relationships:

$$AQ_i = \beta_0 + \beta_1 PRO_i + \beta_2 COM_i + \beta_3 IND_i + U_i$$

Where:

AQ_i = Audit quality for respondent i (dependent variable)

PRO_i = Professionalism of the auditor for respondent i (independent variable)

COM_i = Communication between auditors and clients for respondent i (independent variable)

IND_i = Auditor independence for respondent i (independent variable)

β_0 = Constant term

$\beta_1 - \beta_3$ = Coefficients measuring the impact of each independent variable on audit quality

U_i = Error term

A priori expectations:

$\beta_1 > 0$: It is expected that improvements in auditor professionalism will positively influence audit quality.

$\beta_2 > 0$: Effective communication is expected to positively influence audit quality.

$\beta_3 > 0$: Higher auditor independence is expected to positively influence audit quality.

This model allows for a thorough examination of the effects of professionalism, communication, and independence on the perceived quality of audits.

3.6 Research Instrument for Data Collection

This study will utilize a structured questionnaire to collect primary data from respondents at LAPO Microfinance Bank. The questionnaire is designed to capture data on key aspects of the auditor-client relationship, specifically professionalism, communication, and independence, and their impact on audit quality.

The questionnaire will be divided into two sections:

Section A: This section gathers demographic information, including gender, age, professional role, and years of experience in auditing. These variables provide the necessary background information to contextualize the responses.

Section B: This section focuses on evaluating the influence of auditor professionalism, communication, and independence on audit quality. Each of these factors will be assessed using a 5-point Likert scale ranging from Strongly Agree (5) to Strongly Disagree (1). The responses will provide quantitative data to analyse the relationships between the independent variables (professionalism, communication, independence) and the dependent variable (audit quality).

The instrument is designed to ensure that the data collected aligns with the research objectives and provides reliable and relevant information to answer the study's research questions.

3.7 Reliability of the Instrument

To ensure the reliability of the questionnaire, a pilot study will be conducted involving a sample of 20 participants from LAPO Microfinance Bank. The reliability of the instrument will be assessed using Cronbach's Alpha. A value of 0.70 or higher will be considered acceptable for determining the internal consistency of the questionnaire. The pilot study will also help identify any ambiguities in the questions, ensuring clarity and relevance before the final data collection.

3.8 Operationalization and Measurement of Variables

The variables in this study are operationalized as follows:

Table 3.1: Operationalization of Variables

Variable	Type	Definition/Description	Measurement	Scale
Audit Quality (AQ)	Dependent	The overall quality of the audit process at LAPO Microfinance Bank.	Responses to aggregated Likert-scale items.	Ordinal (5-point)
Auditor Professionalism (PRO)	Independent	Competence, ethical conduct, and adherence to professional standards.	Likert-scale responses on professionalism metrics.	Ordinal (5-point)
Auditor Communication (COM)	Independent	Clarity and transparency of communication between auditors and clients.	Likert-scale responses on communication metrics.	Ordinal (5-point)
Auditor	Independent	The degree to which auditors	Likert-scale	Ordinal

Independence (IND)		maintain objectivity and avoid external influence.	responses on independence metrics.	(5-point)
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Source: Researcher's Compilation (2025)

3.9 Method of Data Analysis

The data collected for this study will be analysed using a combination of descriptive and inferential statistical techniques to provide a comprehensive understanding of how the auditor-client relationship influences audit quality at LAPO Microfinance Bank.

Descriptive Statistics: Descriptive statistics (such as frequencies, means, standard deviations, and percentages) will be used to summarize the demographic characteristics of the respondents and provide an overview of trends in the auditor-client relationship and its impact on audit quality.

Inferential Statistics: To test the research hypotheses and analyse the relationships between the independent variables (professionalism, communication, and independence) and the dependent variable (audit quality), multiple regression analysis will be conducted. This technique allows for the simultaneous examination of the effects of multiple independent variables on a single dependent variable.

Correlation Analysis: Correlation analysis will be performed to assess the strength and direction of the relationships between the variables. This analysis will provide additional insights into the dynamics of the auditor-client relationship and its effect on audit quality.

A significance level of 5 percent ($\alpha = 0.05$) will be adopted for all statistical tests to ensure the robustness and reliability of the results. SPSS (Statistical Package for the Social Sciences) will be used to manage and analyse the data. SPSS is widely used for data analysis in academic research and will provide the necessary tools to ensure the accuracy and precision of the findings.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter presents and analyses the data collected to examine the relationship between auditor-client dynamics and audit quality, focusing on LAPO Microfinance Bank. Data were gathered through a structured questionnaire distributed to individuals involved in the audit process, including auditors, audit managers, internal auditors, and finance staff at LAPO. The chapter addresses the research questions and hypotheses outlined in Chapter 1, focusing on auditor professionalism, communication between auditors and clients, and auditor independence. The findings are analysed to understand how these factors impact audit quality and reliability in Nigerian microfinance institutions.

4.2 Data Presentation

Data for this study were collected from 50 respondents directly involved in the audit process at LAPO Microfinance Bank, including internal and external auditors, audit managers, and finance staff. The questionnaire captured both demographic details and responses to key variables affecting audit quality. The following sections summarize the respondents' demographic characteristics, followed by an analysis of the core variables: auditor professionalism, communication between auditors and clients, auditor independence, and audit quality. Responses were measured using a Likert scale, ranging from Strongly Agree to Strongly Disagree, providing a nuanced evaluation of respondents' perspectives on the dynamics influencing audit outcomes.

4.2.1 Demographic Data

Table 4.1: Demographic Characteristics of Respondents

Variable	Category	Frequency	Percent
Gender	Male	31	62.0%
	Female	19	38.0%
	Total	50	100.0%

Age	18-25 years	10	20.0%
	26-35 years	22	44.0%
	36-45 years	12	24.0%
	45 and above	6	12.0%
	Total	50	100.0%
Professional Role	Auditor	20	40.0%
	Audit Manager	12	24.0%
	Internal Auditor	12	24.0%
	External Auditor	6	12.0%
	Total	50	100.0%
Years of Experience	0-3 years	15	30.0%
	4-6 years	21	42.0%
	7-10 years	10	20.0%
	11 years and above	4	8.0%
	Total	50	100.0%

Source: Field Survey (2025)

Table 4.1 presents the demographic characteristics of the respondents involved in the study. The total number of participants is 50, with a distribution across various categories including gender, age, professional role, and years of experience. The gender distribution of respondents reveals a majority of male participants, who account for 62.0% of the sample. In contrast, female respondents represent 38.0% of the sample. This shows a notable gender imbalance, with male respondents outnumbering female participants. However, the representation of both genders indicates a diverse pool of respondents, contributing to the generalizability of the findings. Regarding age, the largest group of respondents falls within the 26–35 years range, making up 44.0% of the sample. This is followed by the 36–45 years age group, which constitutes 24.0% of the respondents. A smaller percentage, 20.0%, are aged between 18 and 25 years, while the least represented group, 12.0%, are aged 45 and above. The predominant age group of 26–35 years indicates a relatively young workforce within the organization, which could influence the perception of audit processes and the dynamics of auditor-client relationships. In terms of professional roles, 40.0% of the respondents identify as auditors, making this the largest group. The second-largest group, comprising 24.0% of respondents, consists of both audit managers and internal auditors. External auditors represent the smallest group at 12.0%. This distribution highlights the

prominence of auditors and audit managers within the respondent pool, ensuring that insights into the audit process are grounded in direct professional experience. In terms of professional experience, the largest group (42.0%) has between 4 to 6 years of experience, followed by 30.0% of respondents with 0 to 3 years of experience. Those with 7–10 years of experience constitute 20.0% of the sample, while a small percentage, 8.0%, have more than 11 years of experience. This distribution indicates a reasonably experienced sample overall, with a substantial portion possessing 4–6 years of practical knowledge in the field. The range of experience levels ensures a well-rounded perspective on the audit process.

4.2.2 Descriptive Analysis

Table 4.2: Descriptive Statistics

	AQ	COM	IND	PRO
Mean	3.468000	3.284000	3.360000	3.644000
Median	3.600000	3.200000	3.400000	3.700000
Maximum	4.800000	4.800000	4.800000	4.800000
Minimum	1.800000	2.000000	2.000000	2.400000
Std. Dev.	0.701730	0.721778	0.677330	0.702520
Skewness	-0.335168	0.328595	-0.141389	-0.087787
Kurtosis	2.645556	2.352148	2.334684	1.955822
Jarque-Bera Probability	1.197879 0.549394	1.774193 0.411850	1.088767 0.580199	2.335697 0.311035
Sum	173.4000	164.2000	168.0000	182.2000
Sum Sq. Dev.	24.12880	25.52720	22.48000	24.18320
Observations	50	50	50	50

Source: Researcher's Computation (2025), EVIEWS 9.0

Table 4.2 presents descriptive statistics for the key variables under study: audit quality, communication between auditors and clients, auditor independence, and auditor professionalism. The mean values for each variable indicate general trends in how respondents perceive these factors at LAPO Microfinance Bank. The mean for audit quality is 3.47, suggesting that respondents have a moderately positive view of the overall audit quality. With a median of 3.60, it is clear that most respondents rated audit quality higher, indicating a generally favourable perception. However, the variability in responses is reflected in the range, with the maximum score of 4.80 and the minimum score of 1.80, highlighting differences in opinions. The standard deviation of 0.70 indicates moderate variability, while

the negative skewness of -0.34 suggests that more respondents rated audit quality positively, though a few rated it lower. The kurtosis value of 2.65 indicates a relatively normal distribution, with no significant outliers. Communication between auditors and clients has a mean score of 3.28, which is slightly lower than that for audit quality, suggesting that while communication is generally perceived positively, there is room for improvement. The median score of 3.20 further supports this view, indicating that the majority of respondents rated communication at a moderate level. The maximum value of 4.80 and the minimum of 2.00 reveal some differences in perception, and the standard deviation of 0.72 reflects this variability. The skewness value of 0.33 shows a slight positive skew, meaning a few respondents rated communication lower than the majority, but overall, communication is viewed positively. The kurtosis value of 2.35 also suggests a fairly normal distribution.

The mean for auditor independence is 3.36, indicating that respondents generally feel auditors maintain an acceptable level of independence at LAPO Microfinance Bank. The median value of 3.40 is very close to the mean, further confirming that opinions on independence are fairly consistent among the respondents. The maximum value of 4.80 and the minimum of 2.00 show some variability, but the standard deviation of 0.68 suggests that most responses are not drastically different. The skewness value of -0.14 suggests a nearly symmetrical distribution of responses, with a slight tendency toward more positive views on independence. The kurtosis value of 2.33 indicates that the responses are fairly evenly distributed around the mean. Professionalism is the highest-rated variable, with a mean score of 3.64, indicating that respondents perceive auditors at LAPO Microfinance Bank as highly professional. The median value of 3.70, slightly higher than the mean, supports this positive perception of professionalism. With a maximum score of 4.80 and a minimum of 2.40, there is some variability, but the standard deviation of 0.70 indicates moderate variation in responses. The skewness of -0.09 suggests that responses are nearly symmetrical, with most

respondents rating professionalism positively. The kurtosis value of 1.96 indicates a relatively normal distribution of responses, showing that opinions are evenly spread around the mean. Overall, the data reveals that professionalism is the most positively viewed aspect of the audit process, followed by audit quality, independence, and communication. While there is variability in the responses, particularly regarding communication and independence, the general trend indicates that respondents hold a favourable view of the audit process at LAPO Microfinance Bank. The data's distribution is generally normal, with slight deviations indicating a diversity of opinions among participants.

Table 4.3: Responses on Auditor Professionalism

Items	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)	Mean Score	Std. Dev.
Auditors at LAPO Microfinance Bank demonstrate a high level of professional competence during the audit process.	11 (22%)	17 (34%)	13 (26%)	9 (18%)	0 (0%)	3.60	1.030
The auditors consistently adhere to the ethical standards outlined by professional accounting bodies (ICAN, ANAN, etc.).	10 (20%)	19 (38%)	17 (34%)	4 (8%)	0 (0%)	3.70	0.886
Auditors at LAPO Microfinance Bank stay updated with the latest auditing standards and practices.	9 (18%)	22 (44%)	12 (24%)	7 (14%)	0 (0%)	3.66	0.939
The auditors' professional judgment is rarely influenced by external pressures during the audit process.	10 (20%)	16 (32%)	15 (30%)	8 (16%)	1 (2%)	3.52	1.054
Auditors at LAPO Microfinance Bank handle audit challenges with a high degree of professionalism.	8 (16%)	24 (48%)	15 (30%)	3 (6%)	0 (0%)	3.74	0.803

Source: Field Survey (2025)

Table 4.3 provides the responses to questions related to auditor professionalism at LAPO Microfinance Bank. The data show varying levels of agreement across the five items presented in the questionnaire. For the item "Auditors at LAPO Microfinance Bank

demonstrate a high level of professional competence during the audit process," 34% of respondents agreed, and 22% strongly agreed, reflecting a favourable view of auditor professionalism. The mean score of 3.60 indicates a generally positive perception, with a standard deviation of 1.030, suggesting some variability in responses. In the second item, "The auditors consistently adhere to the ethical standards outlined by professional accounting bodies (ICAN, ANAN, etc.)," 38% of respondents agreed, and 20% strongly agreed, resulting in a mean score of 3.70, indicating a slightly more favourable view of auditors' adherence to ethical standards. The standard deviation is 0.886, indicating relatively consistent agreement among the respondents.

For "Auditors at LAPO Microfinance Bank stay updated with the latest auditing standards and practices," the responses were fairly balanced, with 44% agreeing and 18% strongly agreeing. The mean score of 3.66 reflects a positive but slightly less confident view, and the standard deviation of 0.939 shows moderate variability. Regarding "The auditors' professional judgment is rarely influenced by external pressures during the audit process," there was some disagreement, with 16% disagreeing and 2% strongly disagreeing. This item received the lowest mean score of 3.52, with a relatively high standard deviation of 1.054, suggesting more divergence in respondents' views on auditor independence from external influences. Finally, the item "Auditors at LAPO Microfinance Bank handle audit challenges with a high degree of professionalism" received the highest mean score of 3.74, with 48% agreeing and 16% strongly agreeing, indicating a strong perception of professionalism in handling audit challenges. The standard deviation of 0.803 suggests less variation in responses compared to the other items.

Table 4.4: Responses on Communication Between Auditors and Clients

Items	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)	Mean Score	Std. Dev.

There is clear and consistent communication between the auditors and the management of LAPO Microfinance Bank throughout the audit process.	11 (22%)	13 (26%)	12 (24%)	12 (24%)	2 (4%)	3.38	1.193
The management of LAPO Microfinance Bank actively provides the auditors with the necessary information for a comprehensive audit.	6 (12%)	9 (18%)	24 (48%)	9 (18%)	2 (4%)	3.16	0.997
The auditors at LAPO Microfinance Bank effectively explain audit findings and issues to the management.	6 (12%)	8 (16%)	24 (48%)	11 (22%)	1 (2%)	3.14	0.969
There is a mutual understanding between the auditors and management regarding the expectations of the audit process.	7 (14%)	15 (30%)	20 (40%)	6 (12%)	2 (4%)	3.38	1.008
The communication between auditors and management contributes to a more efficient audit process at LAPO Microfinance Bank.	5 (10%)	20 (40%)	14 (28%)	10 (20%)	1 (2%)	3.36	0.985

Source: Field Survey (2025)

Table 4.4 presents the responses on communication between auditors and clients at LAPO Microfinance Bank. The data reveals varying levels of agreement with the five items regarding communication processes. For the statement "There is clear and consistent communication between the auditors and the management of LAPO Microfinance Bank throughout the audit process," 26% of respondents agreed, and 22% strongly agreed, resulting in a mean score of 3.38. This indicates a generally favourable view of communication,

although the standard deviation of 1.193 suggests some variability in perceptions. The second item, "The management of LAPO Microfinance Bank actively provides the auditors with the necessary information for a comprehensive audit," received a mean score of 3.16, reflecting a somewhat less favourable view. While 18% agreed and 12% strongly agreed, 48% were undecided, indicating that there is some uncertainty regarding the information flow between management and auditors. The standard deviation of 0.997 reflects moderate variability.

For "The auditors at LAPO Microfinance Bank effectively explain audit findings and issues to the management," the mean score of 3.14 indicates a similar perception, with 48% of respondents undecided, and a notable portion of the sample (22%) disagreeing. The standard deviation of 0.969 suggests some differences in opinion about the clarity of communication.

Regarding "There is a mutual understanding between the auditors and management regarding the expectations of the audit process," the mean score of 3.38 indicates a balanced perception, with 30% agreeing and 14% strongly agreeing. However, 40% of respondents were undecided, which points to varying degrees of clarity regarding expectations between auditors and management. The standard deviation of 1.008 highlights this variability. Finally, "The communication between auditors and management contributes to a more efficient audit process at LAPO Microfinance Bank" received the highest mean score of 3.36, with 40% agreeing. However, 28% of respondents remained undecided, and 20% disagreed. This suggests that while communication is seen as an important factor, its effectiveness in enhancing efficiency is still perceived differently by respondents. The standard deviation of 0.985 shows some variability in opinions.

Table 4.5: Responses on Auditor Independence

Items	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)	Mean Score	Std. Dev.
Auditors at LAPO Microfinance Bank maintain a high level of independence despite	6 (12%)	13 (26%)	20 (40%)	8 (16%)	3 (6%)	3.22	1.055

long-term working relationships with the management.							
Auditors at LAPO Microfinance Bank resist any undue pressure from the management when making audit decisions.	7 (14%)	12 (24%)	23 (46%)	8 (16%)	2 (4%)	3.36	0.921
The auditors at LAPO Microfinance Bank are free from conflicts of interest that could impact their objectivity during the audit process.	3 (6%)	20 (40%)	18 (36%)	9 (18%)	0 (0%)	3.34	0.848
The audit reports produced at LAPO Microfinance Bank accurately reflect the financial state of the institution without external influence.	6 (12%)	21 (42%)	14 (28%)	7 (14%)	2 (4%)	3.44	1.013
Auditors at LAPO Microfinance Bank make decisions based solely on evidence and standards, rather than client preferences or pressures.	8 (16%)	15 (30%)	19 (38%)	7 (14%)	1 (2%)	3.44	0.993

Source: Field Survey (2025)

Table 4.5 presents the responses regarding auditor independence at LAPO Microfinance Bank. The data shows a generally positive perception of auditor independence, though with some variation in responses. For the item "Auditors at LAPO Microfinance Bank maintain a high level of independence despite long-term working relationships with the management," the mean score of 3.22 suggests a moderately positive perception, with 40% of respondents undecided, indicating some uncertainty about the independence maintained despite long-term relationships. The second item, "Auditors at LAPO Microfinance Bank resist any undue pressure from the management when making audit decisions," received a mean score of 3.36, indicating a somewhat favourable view of auditor resistance to external pressures. However, 46% were undecided, highlighting a degree of uncertainty about how much auditors resist management pressure.

For "The auditors at LAPO Microfinance Bank are free from conflicts of interest," the mean score of 3.34 suggests a fairly positive view, although 36% of respondents remained neutral on the matter. This reflects some uncertainty or lack of clarity regarding auditors' objectivity. The item "The audit reports produced at LAPO Microfinance Bank accurately reflect the financial state of the institution without external influence" received a slightly higher mean of 3.44, indicating that respondents generally perceive the reports as accurate and free from outside influence, though with some variation in opinion. Finally, "Auditors at LAPO Microfinance Bank make decisions based solely on evidence and standards" received the same mean score of 3.44, showing that most respondents agree, but again, there is some room for improvement in terms of clarity and consistency in responses.

Table 4.6: Responses on Audit Quality

Items	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)	Mean Score	Std. Dev.
The audit process at LAPO Microfinance Bank provides an accurate reflection of the institution's financial health.	4 (8%)	20 (40%)	24 (48%)	2 (4%)	0 (0%)	3.46	0.788
The quality of audits conducted at LAPO Microfinance Bank is sufficient to meet regulatory requirements and stakeholder expectations.	5 (10%)	21 (42%)	20 (40%)	3 (6%)	1 (2%)	3.50	0.839
Audit reports produced by LAPO Microfinance Bank are transparent, credible, and free from material misstatements.	6 (12%)	24 (48%)	16 (32%)	3 (6%)	1 (2%)	3.54	0.706
The quality and reliability of the audit process at LAPO Microfinance Bank are consistently maintained throughout the audit.	3 (6%)	22 (44%)	17 (34%)	6 (12%)	2 (4%)	3.38	0.878
The audits conducted at LAPO Microfinance Bank are thorough and provide	4 (8%)	22 (44%)	19 (38%)	4 (8%)	1 (2%)	3.46	0.762

relevant information to all stakeholders.							
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Source: Field Survey (2025)

Table 4.6 now reflects the updated question regarding the quality and reliability of the audit process at LAPO Microfinance Bank. For the revised statement "The quality and reliability of the audit process at LAPO Microfinance Bank are consistently maintained throughout the audit," the mean score of 3.38 indicates a moderately favourable perception. However, the 12% disagreement and the 40% undecided responses show some uncertainty or differing views on whether the quality and reliability of the audit are maintained consistently throughout the process. The standard deviation of 0.878 suggests moderate variation in how respondents view the consistency of the audit process. The item "The audit process at LAPO Microfinance Bank provides an accurate reflection of the institution's financial health" received a mean score of 3.46, which is generally positive, reflecting that respondents see the audit process as reliable, with a standard deviation of 0.788, indicating moderate consistency in responses. For "The quality of audits conducted at LAPO Microfinance Bank is sufficient to meet regulatory requirements and stakeholder expectations," the mean score of 3.50 shows a solid perception of the audits meeting necessary standards, with minimal disagreement and good consensus among respondents.

"Audit reports produced by LAPO Microfinance Bank are transparent, credible, and free from material misstatements" received the highest mean score of 3.54, showing that respondents perceive the audit reports as credible and transparent, although there is still some disagreement (6%). Finally, "The audits conducted at LAPO Microfinance Bank are thorough and provide relevant information to all stakeholders" also received a strong mean score of 3.46, reflecting a generally positive view of the thoroughness and relevance of the audits.

4.2.3 Correlation Analysis

To examine the strength and direction of the relationships between the key variables in this study, a Pearson Correlation Analysis was conducted. This analysis provides valuable insights into the linear relationships among the variables: Audit Quality (AQ), Communication (COM), Auditor Independence (IND), and Auditor Professionalism (PRO). The results are presented in Table 4.3.

Table 4.7: Pearson Correlation Matrix

Covariance Analysis: Ordinary
 Date: 06/12/25 Time: 13:32
 Sample: 1 50
 Included observations: 50

Correlation Probability	AQ	COM	IND	PRO
AQ	1.000000 -----			
COM	0.834647 0.0000	1.000000 -----		
IND	0.850844 0.0000	0.716671 0.0000	1.000000 -----	
PRO	0.793609 0.0000	0.721851 0.0000	0.645392 0.0000	1.000000 -----

To assess the relationships between the key variables in this study, a Pearson Correlation Analysis was conducted. The analysis reveals the strength and direction of the linear associations between Audit Quality (AQ), Communication (COM), Auditor Independence (IND), and Auditor Professionalism (PRO). The results of the correlation analysis are presented in Table 4.3. The Pearson correlation between AQ and COM is 0.8346 ($p = 0.0000$), indicating a strong positive relationship. This suggests that better communication between auditors and clients is significantly associated with higher audit quality. Similarly, the correlation between AQ and IND is 0.8508 ($p = 0.0000$), showing an even stronger positive association. This implies that higher auditor independence is strongly linked to enhanced audit quality. Furthermore, the correlation between AQ and PRO is 0.7936 ($p =$

0.0000), demonstrating that greater professionalism in auditors is positively correlated with higher audit quality.

In addition, the analysis shows a moderate positive relationship between COM and IND (0.7167, $p = 0.0000$). This suggests that effective communication between auditors and clients supports greater auditor independence. Similarly, the correlation between COM and PRO (0.7219, $p = 0.0000$) indicates that good communication is associated with greater professionalism among auditors. Finally, a moderate correlation of 0.6454 ($p = 0.0000$) is observed between IND and PRO, highlighting that more independent auditors tend to be more professional. In summary, the correlation analysis reveals that AQ, COM, IND, and PRO are all positively interrelated, with communication, auditor independence, and professionalism contributing significantly to improved audit quality. These relationships are statistically significant, demonstrating the importance of these factors in enhancing the audit process at LAPO Microfinance Bank.

4.2.4 Diagnostic Tests and Regression Analysis

Table 4.8: Variance Inflation Factors (VIF)

Variance Inflation Factors
 Date: 06/12/25 Time: 13:37
 Sample: 1 50
 Included observations: 50

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.047566	33.03917	NA
PRO	0.006686	63.91209	2.246118
COM	0.007598	59.61194	2.694465
IND	0.007082	57.74836	2.211706

The Variance Inflation Factor (VIF) values for PRO (2.246), COM (2.694), and IND (2.212) are all well below the threshold of 10, indicating that multicollinearity is not a concern in this model. These low VIF values suggest that the independent variables do not exhibit strong intercorrelations, ensuring the reliability of the regression estimates. Thus, we can confidently

proceed with the regression analysis, as multicollinearity does not affect the validity of the results.

Table 4.9: Heteroskedasticity Test: Breusch-Pagan-Godfrey

Heteroskedasticity Test: Breusch-Pagan-Godfrey
Null hypothesis: Homoskedasticity

F-statistic	0.221116	Prob. F(3,46)	0.8812
Obs*R-squared	0.710781	Prob. Chi-Square(3)	0.8707
Scaled explained SS	1.270168	Prob. Chi-Square(3)	0.7362

Test Equation:
Dependent Variable: RESID^2
Method: Least Squares
Date: 06/12/25 Time: 13:38
Sample: 1 50
Included observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.069140	0.114509	0.603796	0.5489
PRO	-0.032549	0.042931	-0.758160	0.4522
COM	0.017972	0.045766	0.392684	0.6964
IND	0.016867	0.044185	0.381733	0.7044
R-squared	0.014216	Mean dependent var		0.066225
Adjusted R-squared	-0.050075	S.D. dependent var		0.137468
S.E. of regression	0.140868	Akaike info criterion		-1.005374
Sum squared resid	0.912810	Schwarz criterion		-0.852412
Log likelihood	29.13434	Hannan-Quinn criter.		-0.947125
F-statistic	0.221116	Durbin-Watson stat		1.926294
Prob(F-statistic)	0.881241			

The Breusch-Pagan-Godfrey test results indicate that there is no significant evidence of heteroskedasticity in the regression model. The high p-values for the F-statistic (0.8812), Obs*R-squared (0.8707), and scaled explained SS (0.7362) support the null hypothesis of homoskedasticity, which suggests that the variance of the residuals is constant across observations. Therefore, we can proceed with the regression analysis without concerns about heteroskedasticity affecting the validity of the results.

Table 4.10: Regression Analysis

Dependent Variable: AQ
Method: Least Squares
Date: 06/12/25 Time: 13:35
Sample: 1 50
Included observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
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C	-0.102291	0.218096	-0.469019	0.6413
PRO	0.279527	0.081767	3.418580	0.0013
COM	0.304438	0.087167	3.492581	0.0011
IND	0.461881	0.084156	5.488404	0.0000
R-squared	0.862767	Mean dependent var	3.468000	
Adjusted R-squared	0.853817	S.D. dependent var	0.701730	
S.E. of regression	0.268299	Akaike info criterion	0.283186	
Sum squared resid	3.311269	Schwarz criterion	0.436147	
Log likelihood	-3.079639	Hannan-Quinn criter.	0.341434	
F-statistic	96.39874	Durbin-Watson stat	1.521447	
Prob(F-statistic)	0.000000			

The results from the regression analysis show that PRO, COM, and IND are statistically significant predictors of Audit Quality (AQ). Specifically:

PRO (0.279527) is positively related to AQ, with a p-value of 0.0013, indicating that professionalism among auditors significantly improves audit quality.

COM (0.304438) also shows a strong positive relationship with AQ ($p = 0.0011$), suggesting that better communication between auditors and clients leads to higher audit quality.

IND (0.461881) has the strongest positive effect on AQ ($p = 0.0000$), meaning that auditor independence is a crucial factor in enhancing audit quality.

The R-squared value of 0.862767 indicates that approximately 86.28% of the variation in Audit Quality can be explained by the model, which is very strong. The Adjusted R-squared (0.853817) suggests that the model remains robust even after adjusting for the number of predictors. The F-statistic of 96.39874 with a p-value of 0.000000 confirms the overall significance of the model, and the Durbin-Watson statistic of 1.521447 indicates that there is no significant autocorrelation in the residuals, supporting the reliability of the model's estimates. In conclusion, the regression analysis reveals that Professionalism, Communication, and Independence are all significant predictors of Audit Quality. The model explains a substantial portion of the variation in audit quality, demonstrating that these factors play a crucial role in improving the audit process.

4.3 Test of Hypotheses

The hypotheses formulated in this study were tested based on the results presented in Table 4.8. The decision rule for hypothesis testing is derived from the significance of the p-value. If the p-value is greater than 5%, the null hypothesis is accepted, and the alternate hypothesis is rejected. Conversely, if the p-value is less than 5%, the alternate hypothesis is accepted, and the null hypothesis is rejected.

4.3.1 Auditor Professionalism and Audit Quality at LAPO Microfinance Bank

The hypothesis that there is no significant relationship between auditor professionalism and audit quality at LAPO Microfinance Bank (H01) was tested. The results indicate a strong positive relationship between auditor professionalism and audit quality, with a t-statistic of 5.488 and a p-value of 0.0000. Since the p-value is less than 5%, the null hypothesis is rejected, and the alternate hypothesis is accepted, suggesting that auditor professionalism significantly influences audit quality at LAPO Microfinance Bank.

4.3.2 Communication Between Auditors and Clients and Audit Quality

The hypothesis that there is no significant relationship between communication between auditors and clients and audit quality (H02) was tested. The results show a significant positive relationship, with a t-statistic of 3.492 and a p-value of 0.0011, which is less than 5%. Therefore, the null hypothesis is rejected, and the alternate hypothesis is accepted, indicating that effective communication between auditors and clients significantly enhances audit quality at LAPO Microfinance Bank.

4.3.3 Auditor Independence and Audit Quality

The third hypothesis tested was whether auditor independence has a significant relationship with audit quality at LAPO Microfinance Bank (H03). The analysis revealed a very strong positive relationship between auditor independence and audit quality, with a t-statistic of 5.488 and a p-value of 0.0000, well below the 5% threshold. As the p-value is less than 5%,

the null hypothesis is rejected, and the alternate hypothesis is accepted, confirming that auditor independence plays a critical role in determining the quality of audits at LAPO Microfinance Bank.

4.4 Discussion of Findings

The findings from this study align with the theoretical framework and previous empirical research, particularly regarding the significant relationships between auditor professionalism, communication, and independence with audit quality.

4.4.1 Auditor Professionalism and Audit Quality

The study demonstrates that there is a significant relationship between auditor professionalism and audit quality at LAPO Microfinance Bank. This finding aligns with a considerable body of research suggesting that a high level of professionalism, including competence, integrity, and adherence to ethical standards, enhances the quality of audit outcomes. Yulianti and Chandrarin (2022) found that professionalism directly influences the effectiveness and reliability of audit processes, confirming that auditors who maintain professional conduct are more likely to produce credible and accurate audit reports. Mardijuwono and Subianto (2020) further supported this relationship, highlighting that professional competence in auditors is critical for meeting regulatory requirements and improving audit quality. In this context, professionalism is seen as an indispensable component of effective auditing, ensuring that audits reflect the true financial health of an institution. Iryani (2017) emphasized that auditor professionalism is pivotal not only for ensuring accuracy but also for fostering trust and transparency in financial reporting.

4.4.2 Communication Between Auditors and Clients

The findings of this study indicate a strong correlation between effective communication between auditors and clients and the overall quality of the audit process. Clear and consistent communication ensures that both parties understand expectations, leading to better audit

outcomes. This conclusion is supported by the research of Putri and Mardijuwono (2020), who found that transparent communication enhances understanding and facilitates the resolution of issues during the audit process. Haeridistia and Fadjaranie (2019) also confirmed that open dialogue between auditors and clients directly contributes to the efficiency of the audit process and the accuracy of financial statements. Lamba and Yohanes (2020) further argued that consistent communication strengthens relationships, reduces misunderstandings, and ensures that all relevant financial data is considered during audits. This study, therefore, emphasizes that communication is not merely a formality but a fundamental element that supports the integrity of audit findings.

4.4.3 Auditor Independence and Audit Quality

The analysis reveals that auditor independence plays a critical role in ensuring audit quality. The findings indicate that auditors at LAPO Microfinance Bank maintain a significant level of independence, which positively influences their judgment and enhances the objectivity of the audit process. Nasrabadi and Arbabian (2020) found that the independence of auditors ensures that their decisions are free from external pressures, allowing them to produce unbiased and reliable audit reports. This aligns with the views of Rezazadeh and Zahmatkesh (2017), who showed that the autonomy of auditors leads to more credible and objective audits, especially in preventing conflicts of interest. Dimiyati and Kumalasari (2020) further argued that maintaining independence from the management is essential for preserving the integrity of the audit process, ensuring that the financial statements produced are a true and fair representation of the institution's financial position.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary of the key findings from the study, presents the conclusions drawn from the results, and offers recommendations based on the analysis. The chapter also outlines suggestions for further studies and highlights the contributions made by the research to knowledge in the field of audit quality, specifically within the context of microfinance institutions in Nigeria.

5.2 Summary of Findings

The aim of this study was to investigate the relationship between auditor-client dynamics—specifically auditor professionalism, communication, and independence—and audit quality at LAPO Microfinance Bank in Edo State, Nigeria. The findings from the study can be summarized as follows:

- i. **Auditor Professionalism and Audit Quality:** The study found a strong positive relationship between auditor professionalism and audit quality at LAPO Microfinance Bank. Professionalism, which includes ethical conduct, competence, and adherence to auditing standards, was shown to significantly enhance the quality of audits. This was consistent with the views of scholars such as Yulianti and Chandrarin (2022) and Iryani (2017), who argued that professional auditors are more likely to deliver reliable and accurate audit outcomes.
- ii. **Communication Between Auditors and Clients:** The study highlighted that effective communication between auditors and clients plays a crucial role in ensuring high-quality audits. Clear, consistent, and transparent communication leads to a better understanding of expectations and smoother execution of the audit process. This aligns with findings by Haeridistia and Fadjarenie (2019), who found that good

communication fosters more efficient audits and improves the credibility of financial statements.

- iii. **Auditor Independence and Audit Quality:** The study found a significant positive relationship between auditor independence and audit quality. Auditors who maintained independence from the management and other external influences were more likely to provide unbiased and accurate audit reports. This finding aligns with the work of Nasrabadi and Arbabian (2020), who identified that auditor independence is essential for ensuring objectivity in audits.

These findings underscore the importance of the auditor-client relationship in determining audit quality. The results also confirm that professional standards, communication practices, and auditor independence are critical factors that influence the reliability of audit reports, particularly in the context of microfinance institutions like LAPO Microfinance Bank.

5.3 Conclusion

This study explored the relationship between the auditor-client dynamics—professionalism, communication, and independence—and audit quality in Nigerian microfinance institutions, with a specific focus on LAPO Microfinance Bank. The research has demonstrated that:

- i. Auditor professionalism, marked by adherence to ethical standards and competence, significantly enhances audit quality.
- ii. Effective communication between auditors and clients fosters understanding and improves the efficiency of the audit process.
- iii. Auditor independence plays a crucial role in ensuring the objectivity and reliability of audit outcomes.

The findings of this study have practical and theoretical implications. On a practical level, the study contributes to the improvement of auditing practices in the Nigerian microfinance sector by highlighting the key factors that influence audit quality. On a theoretical level, the

research fills a gap in the existing literature by focusing on the role of the auditor-client relationship, which has been underexplored in prior studies.

5.4 Recommendations

Based on the findings, the following recommendations are made to enhance audit quality in microfinance institutions, particularly at LAPO Microfinance Bank:

1. **Enhancing Auditor Professionalism:** Microfinance banks should prioritize the recruitment and training of highly skilled and ethical auditors. Regular professional development programs that emphasize auditing standards, ethics, and new regulatory frameworks should be implemented to ensure that auditors maintain the highest levels of professionalism and competence.
2. **Improving Communication Practices:** Effective communication between auditors and management should be institutionalized within microfinance banks. Management should provide auditors with all necessary financial information and be receptive to audit findings. Regular meetings and feedback sessions between auditors and clients could help reduce misunderstandings and enhance the quality of the audit process.
3. **Strengthening Auditor Independence:** To preserve the objectivity and integrity of audits, microfinance banks should establish policies that safeguard auditor independence. Measures such as limiting the duration of auditor-client relationships, implementing internal controls to monitor auditor-objectivity, and offering fair compensation to auditors can help mitigate potential biases.
4. **Regulatory and Policy Recommendations:** Regulatory bodies like the Financial Reporting Council of Nigeria (FRCN) and the Central Bank of Nigeria (CBN) should enforce stricter auditing guidelines and promote regular audits to ensure financial transparency. Strengthening enforcement mechanisms and increasing penalties for non-compliance can encourage better adherence to auditing standards.

5.5 Suggestions for Further Studies

While this study provides valuable insights into the relationship between auditor-client dynamics and audit quality in Nigerian microfinance institutions, further research could explore the following areas:

1. **Comparative Studies Across Microfinance Institutions:** Future studies could examine how auditor-client relationships affect audit quality across different microfinance institutions in Nigeria or other developing economies, thereby providing a more comprehensive understanding of audit quality in this sector.
2. **Longitudinal Studies on Auditor-Client Relationships:** Research could focus on how changes in the dynamics of auditor-client relationships over time influence audit quality, particularly in microfinance institutions where relationships tend to be more personal and long-term.
3. **Impact of Regulatory Changes on Audit Quality:** Further research could investigate the impact of recent regulatory reforms in Nigeria on audit practices and how these reforms affect auditor professionalism, independence, and communication.

5.6 Contribution to Knowledge

This study contributes to the academic understanding of audit quality in the context of microfinance institutions, particularly in developing economies like Nigeria. The findings provide empirical evidence on the importance of auditor-client relationships—specifically professionalism, communication, and independence—in ensuring high-quality audits. This research fills a gap in the literature, as most studies have focused on more traditional financial institutions, neglecting the unique dynamics of microfinance institutions. Additionally, this study contributes to policy discussions on improving audit practices in Nigeria’s financial sector, offering practical recommendations for both microfinance institutions and regulatory bodies to enhance audit quality and financial transparency.

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APPENDIX

QUESTIONNAIRE

**AUDITOR-CLIENT RELATIONSHIP AND AUDIT QUALITY: A CASE STUDY OF
LAPO MICROFINANCE BANK**

**Department of Accounting
Faculty of Management Sciences,
University of Benin,
Benin City.
9th May, 2025.**

Dear Participants,

I am a student of the Department of Accounting at the University of Benin, conducting a research study on "Auditor-Client Relationship and Audit Quality: A Case Study of LAPO Microfinance Bank." The objective of this study is to explore how different aspects of the auditor-client relationship, specifically professionalism, communication, and auditor independence affect the quality of audits conducted at LAPO Microfinance Bank.

Your participation in this study is entirely voluntary, and all responses will be treated with the utmost confidentiality. The information you provide will solely be used for academic purposes, and will not be shared with any external parties. Please respond to the questions as truthfully as possible, as your honest answers are essential for the accuracy and validity of the research.

Thank you for your cooperation.

Yours faithfully,

Ifueko Queen Osaruonamen
(Researcher)

SECTION A: Demographic data

Gender:

Male ()

Female ()

Age Group:

18–25 years ()

26–35 years ()

36–45 years ()

Above 45 years ()

Professional Role in the Organization:

Auditor []

Audit Manager []

Internal Auditor []

External Auditor []

Years of Experience in the Auditing Field:

0-3 years []

4-6 years []

7-10 years []

11 years and above []

SECTION B: Respondents' Responses

Instructions: For each question, please tick (✓) the response that best characterizes how you feel about the statement:

SD - Strongly Disagree (1), D - Disagree (2), UN - Undecided (3), A - Agree (4), SA - Strongly Agree (5).

Auditor Professionalism

S/N	ITEMS	SA	A	UN	D	SD
1	Auditors at LAPO Microfinance Bank demonstrate a high level of professional competence during the audit process.					
2	The auditors consistently adhere to the ethical standards outlined by professional accounting bodies (ICAN, ANAN, etc.).					
3	Auditors at LAPO Microfinance Bank stay updated with the latest auditing standards and practices.					
4	The auditors' professional judgment is rarely influenced by external pressures during the audit process.					
5	Auditors at LAPO Microfinance Bank handle audit challenges with a high degree of professionalism.					

Communication Between Auditors and Clients

S/N	ITEMS	SA	A	UN	D	SD
6	There is clear and consistent communication between the auditors and the management of LAPO Microfinance Bank throughout the audit process.					
7	The management of LAPO Microfinance Bank actively provides the auditors with the necessary information for a comprehensive audit.					
8	The auditors at LAPO Microfinance Bank effectively explain audit findings and issues to the management.					
9	There is a mutual understanding between the auditors and management regarding the expectations of the audit process.					
10	The communication between auditors and management contributes to a more efficient audit process at LAPO Microfinance Bank.					

Auditor Independence

S/N	ITEMS	SA	A	UN	D	SD
11	Auditors at LAPO Microfinance Bank maintain a high level of independence despite long-term working relationships with the management.					
12	Auditors at LAPO Microfinance Bank resist any undue pressure from the management when making audit decisions.					
13	The auditors at LAPO Microfinance Bank are free from conflicts of interest that could impact their objectivity during the audit process.					
14	The audit reports produced at LAPO Microfinance Bank accurately reflect the financial state of the institution without external influence.					
15	Auditors at LAPO Microfinance Bank make decisions based solely on evidence and standards, rather than client preferences or pressures.					

Audit Quality

S/N	ITEMS	SA	A	UN	D	SD
16	The audit process at LAPO Microfinance Bank provides an accurate reflection of the institution's financial health.					
17	The quality of audits conducted at LAPO Microfinance Bank is sufficient to meet regulatory requirements and stakeholder expectations.					
18	Audit reports produced by LAPO Microfinance Bank are transparent, credible, and free from material misstatements.					
19	The quality and reliability of the audit process at LAPO Microfinance Bank are consistently maintained throughout the audit.					
20	The audits conducted at LAPO Microfinance Bank are thorough and provide relevant information to all stakeholders.					

Explanation:

- SA = Strongly Agree
- A = Agree
- UN = Unsure
- D = Disagree
- SD = Strongly Disagree