AUDITORS REPUTATION: THE IMPACT ON COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARD 5 BY QUOTED COMPANIES IN NIGERIA

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Abstract
This study seeks to ascertain whether or not auditor's reputation has impact on compliance with information disclosure in financial statements of Quoted firms in Nigeria. In line with the objective, an hypothesis was formulated. The population of the study is the two hundred and thirty – four (234) companies quoted on the floor of the Nigerian Stock Exchange and twenty (20) quoted companies selected as sample size. This work utilized data from secondary sources. Data were obtained from the annual accounts and reports of the twenty (20) quoted companies that made up the sample of the study and the International Accounting Standard 5. The time frame for this work is ten years, covering the period of 2003 to 2012. The technique of analysis used in the study was the Spearman's Rank Correlation Analysis. The study established that there is no significant correlation between firms' scores and auditors' rank. This conclusion implied that auditor's reputation does not affect the compliance level of the companies. The study recommended an effective monitoring/supervision and enforcement of the provisions of the Statement of IAS 5, in addition to effective implementation of the penalties provided by the Act on non-compliers regardless of their status or origin. Similarly, the professional accounting bodies should make sure that their members at all times qualify reports prepared not in accordance with the requirements of accounting standards, and any failure on the part of the auditors sanctioned appropriately.

Keywords: Auditors Reputation, Level of Compliance, Financial Statements, Information Disclosures and Quoted Companies.

INTRODUCTION:

1.1 Background of the Study

One potential role of mandatory disclosure is to serve as a commitment device. Disclosures thus reduce the firm's cost of capital, but only if they are credible and not self-serving. The problem

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is that firms have incentives to withhold or manipulate information in certain situations (e.g., poor performance). This is because the publication of information imposes both direct and indirect costs on the disclosing firm. Besides the cost of collecting, processing, communicating and auditing the information to be published, the position of the disclosing company may be damaged when information is used by competitors or by governmental agencies, trade unions, clients or suppliers. Nevertheless, these costs may be partially or totally off-set by the benefits accrued to the company when disclosure satisfies stakeholders' demand for information (Kantudu, 2005). Research has shown the existence of a negative relationship between corporate disclosure and the cost of capital or the ability of the company to raise funds from the capital market (Welker, 1995; Lang and Lundholm, 1996; Botosan, 1997; Sengupta, 1998; Healy and Whalen, 1999; and Leuz and Verrechia, 2000). But companies seem to perceive the existence of an important improvement in their image when disclosing voluntary information (Gray and Roberts, 1989). Hence, when left unregulated the balance between costs and benefits linked to the provision of information may represent a key factor in deciding whether or not to disclose voluntary information.

Thus, Corporate financial reporting practice is highly regulated (Salisu, 2011). This scenario can be explained essentially by the fact that the quality of financial statements is the product of the financial reporting process. Financial statements do not just provide information about a corporation's operations during the year but are critical to the decision making process of users regarding the reporting entity. Any wrong or false accounting information may cause serious injury to users especially the investor and creditor groups who make investment and lending decisions respectively. In Nigeria, though corporate financial reporting is primarily guided by the provisions of accounting standards issued by the Nigerian Accounting Standards Board-NASB now the Financial Reporting Council of Nigeria-FRCN (Dandago, 2009), pronouncements by national professional accounting bodies (ICAN and ANAN) and requirements of statutes such as CAMA, SEC, CBN, BOFIA, NDIC and others; they are largely expected to be complied with in financial reporting (Idigbe, 2007; Asada, 2010; Fowokan, 2011; Abiola and Ojo, 2012).
However, delayed disclosure of an auditor's opinion on the true and fair view of financial information prepared by the management increases the information unevenness and the uncertainty in investment decisions (Mohamad-Nor, Shafie and Wan-Hussin, 2010). The principal-audit relationship between shareholders and management is one of the many adduced reasons for engaging the services of external auditors. According to the agency theory as expounded in literature, an agency relationship will normally exist where there is a contract in which one party called the agent acts and perform delegated duties on behalf of another party called the principal. Whenever conflict of interest arises between the principal and the agent, the agent may not act in the best interest of the principal therefore, in order to avoid such, a third party is usually called upon to mediate. This third party is the external auditor (Barzegar and Salehi, 2008). In order to properly serve as a watchdog, the auditor is expected to possess and show requisite skill, diligence, and care in executing his duties, which amongst many things is to express an opinion on the state of affairs of their clients as claimed by management. The opinion as expressed in his report affects the decisions of users of the financial statement. The way and manner the auditor employs in gathering evidence for his opinion may also go a long way in affecting the quality of his report popularly referred to as auditor's reputation.

According to Generally Accepted Auditing Standards, the standards any auditor would be required to adhere while performing his work are divided into three sections viz general

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standards-addressing the characteristics and nature of auditors, standards on fieldwork-addressing the conduct of the audit, and standard of reporting-addressing the manner of communicating audit findings and opinion (AICPA 1996). According to Woodland and Reynolds (2003), these three combined describe the minimum necessary requirements for audit quality. Therefore, it follows that the ability of the auditor to bring to bear these standards in the course of performing his duties will affect the quality of the audit opinion he puts forward. Hence, a "good" audit firm should produce quality reports. Furthermore, Salehi and Abedini (2008) asserts that audit quality is associated with the quality of information contained in the financial statements and because these financial statements are audited by high quality auditors (reputable audit firms), they should be less likely to contain material misstatements. However, over the years, there have been debates on the decline in audit quality beginning from the Andersen/Enron saga (Oliverio and Newman, 2008). Mgbame, Eragbhe and Osazuwa (2012) opine that fears about audit quality have increased tremendously because of the financial reporting scandals that have rocked major known corporations such as Enron, WorldCom and others. Many have adduced these happenings to auditors. Petroni and Beasley (1996) argue that there are no systematic differences in the loss of reserve estimation accuracy between auditors with high reputation (Big Eight) and other audit firms (Non-Big Eight). Gul and Krishnan (2002) also claim that audit quality for audit firm with high reputation (Big Five) has declined after 1995 basing their assertion on increases in the percentage of unqualified audit reports and declines in the pricing of discretionary accruals to measure audit quality. Weiner (2012) asserts that most companies in the face of scandals switch to high reputation firms (Big Four) because of their perceptions that high reputation firms produce quality reports since they face more loss of public image when compared with firms having little reputation status.

To this end, , it seems the perception that audit firms with reputation status producing quality audit is gradually wavering as a result of more corporate scandals surfacing in the business environment. While some still opine that firms with reputation status known as Big Eight/Six/Four will always produce quality report, others view it contrary. Furthermore, many studies like Becker, DeFond, Jiambalvo, and Subramanyam (1998); Jin, Kanagaretnam and Lobo (2011) have proxy audit quality using audit firm reputation or size based on the understanding that such firms should produce quality report either because of the reputation rationale (reputable firms have greater motivation to perform a high-quality audit) or because of the insurance rationale (stronger firms in terms of resources have a stronger incentive to ensure a high-quality audit.

Consequently, in Nigeria with effect from 1st January, 1985 it became a standard practice for firms to comply with the requirements of the Statement of Accounting Standards (SAS) No. 2, information to be disclosed in financial statements. Given these facts about financial reports and reporting practices, one could simply ask how had companies quoted on the Nigerian Stock Exchange faired in disseminating financial information to the ultimate users that conforms to the International Accounting Standard 5? It is against this background that this study seeks to determine the impact of compliance with information disclosure in financial statements by quoted companies in Nigeria.

1.2 Statement of Problem

The quality of information provided in financial reports determines their usefulness and reliance by users to make informed business and investment decisions. The quality, usefulness and ability of financial reports are guaranteed by strict adherence to Accounting Standards in the preparation

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and formatting of presentation of such financial reports. Accounting has therefore been widely regarded as an information system through which financial and monetized information is generated for economic, social and political decisions (Izedonmi, 2008). On the premises that the loss of reputation, economic rent and increase in litigation cost amongst other things will make auditors ensure that the report they produce is of quality however, the experienced scandals across the globe points otherwise as even some companies audited by the reputable firms have been involved (Weber, Willenborg and Zhang, 2008). Furthermore, Simunic (2003) asserts the notion that audit quality varies across different classes of audit firms has been a heated debate over centuries with divergent opinions surfacing as time elapse. Prior to 2000, the argument was in favor of reputable firms providing quality audit because the audit fees of reputable firms (former) were higher than that of non-reputable firms (latter), litigation rates are lower for the former, the stock market reacts mildly to positive unexpected company earnings that are audited by the latter, companies making IPOs and POs experience less under pricing if audited by a reputable firm... just to mention a few. However, the direction of the argument is changing because of the series of corporate scandals, the mergers of reputable firms from Big Eight to Big Four, rejection of the audit quality ranking of reputable firms versus non-reputable by practitioners and a host of other revelations (Simunic, 2003). It is against this backdrop that this study seeks to ascertain whether or not auditor's reputation has impact on compliance with information disclosure in financial statements of Quoted firms in Nigeria.

Review of Related literature

Reputation constitutes a psychological commitment of the members of the organization standardized into a common belief that in the end will reflect the attitudes of individuals (Levinthal, 1991). In other words, reputation is a corporate culture that determines the behavior of organization and individuals within it. Subsequently, Balmer and Greyser (2003) states that the reputation is built over time, based on what the organization did and how members of the organization have been behaving. While Herbig and Milewicz (1995) state that reputation is an estimate of the consistency over time of entity attribute. Auditing adds to the informational value of financial statements and this makes it extremely important that the opinion of auditors reflect as much information as possible and this is why the auditor must exercise due professional skills, diligence and care in the course of his work (Arrunada, 2000). According to him, this exercised professional judgment by the auditor is a vital feature of audit quality.

This definition could be interpreted to mean that audit entails an objective and independent examination and expression of professional opinion on the financial statements of an enterprise, all within the confinement of the terms of engagement, statutory and professional requirements. Consequently, auditors of a company have the right of access at all time to the company's books, accounts and vouchers, and are entitled to require from the company's office such information and explanations as they think necessary for the performance of their duties. By extension therefore, an audit firm can be viewed as a firm established by a member of any two of the recognized accounting bodies to audit and report on the "True and Fair view" of their clients' financial statements. Similarly, corporate reputation is the overall estimation in which a company is held by its constituents, representing the 'net' effective reaction of customers, investors, employees, and the general public to the company's name (Fombrun, 1996). A corporation's reputation is widely perceived today as an intangible asset that is less imitable by competitors (Roberts and Dowling, 1997), and thus can be successfully used to obtain competitive advantage (Fombrun, 1996) which is valuable, scarce, and sustainable (Hall, 1992). Thus, the reputation of an audit firm is usually based on quality of work, goodwill and experience of an audit firms and

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hence, there exist the "big 6" especially in the developed world (acclaimed as the best and highly reputable audit firms).

Accounting Standards are guidelines which define how companies have to display transactions and events in their financial statements and are not purely technical rules but they are the outcome of highly political processes (Horngren, 1973; Watts and Zimmerman, 1978; and Fogarty, Hussein, and Ketz, 1994). This means that there are different actors who come into contact with or are influenced by accounting standards- e.g. preparers, managers, accounting firms, auditors, financial analysts, employees. All these actors might have differing opinions and interests about what an accurate and useful accounting Standard is and therefore might have different incentives in the production and diffusion of accounting standards (Zeff, 1978; Watts and Zimmerman, 1978, Giner, and Arce, 2004).

Although, academics and practitioners agree on the importance of compliance with the requirements of accounting Standards as an essential element of the financial reporting infrastructure, many scholars argue that the extent to which standards are enforced and violations prosecuted are as important as the standards themselves (Hossain and Adams, 1995; and Sunder 1997). Thus, the quality of financial information is a function of both the quality of accounting standards and the regulatory enforcement or corporate application of the standards (Kothari 2000; and Hope, 2001). Absent of adequate enforcement, therefore renders the best accounting standards inconsequential. This is because if nobody takes action when rules are breached, the rules remain requirements only on paper. However, in some environments, firms behave towards "mandatory" requirements as if they were voluntary (Marston and Shrives 1996, Hodges, and Mellett, 2004); Giner, and Arce, 2004; and Cooper and Robson, 2005). Even though accounting policy disclosures are required in most countries as well as by International Accounting Standards (Saudagaran and Diga 1997), Frost and Ramin, (1997) document considerable variation in accounting policy disclosures within and across countries.

The importance of compliance with the requirements of accounting standards is that it enhances transparency, accountability, standardization, uniformity and comparability which in turn enriches the quality of decision of the users and helps in proper allocation of resources in an economy. However, studies in the area as well as on the determinants of application of accounting standards have been few and mixed. For instance, regarding studies on application or compliance, two divergent schools exist. The application's or rightist's school is advocated by scholars like Choi (1973); Barrett (1977); Klumpes (1997) and Hope (2003). This school theorizes that firms apply or comply with accounting standards. The second school, with advocates, like Deaton and Weygandt (1975); Nobes (1990); Benjamin, Maurice, and Lawrence (1990) and Susilowati, Morris, and Gray (2005) theorize that firms do not apply or comply with accounting standards even under mandatory regimes.

2.1 Auditors Reputation and the Quality of Audit

Audit firm reputation refers to the corporate image built over time by auditing firms. It may be as a result of the array of auditors the firm possesses, the brand name, the perceived audit quality resulting from little or no litigations, the fees charged etcetera. Sucher, Moizer and Zarova (1999) have argued that reputation is founded upon the technical and functional quality of audit firms and this reputation will only come over time. According to Gregory and Jeanes (2007), for one to measure reputation itself, it has to be based on an assumption of quality, which is difficult to evaluate however, researchers can deduce it from the audit methods used by audit firms. From the foregoing, it follows that audit quality may be inferred from the type of audit firm. Audit firms may be broadly grouped into two (reputable and non-reputable) however, according to

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Fuerman and Kraten (2008) some researches on audit firm reputation have succeeded in grouping audit firms into four distinct size levels viz- Big Eight/Six/Four, Medium 2, Small CPA firms, and Single CPA firms. The first grouping is the largest of all as Compustat Research Insight indices indicates that 496 of the fortune 500 companies are audited by this group. The second group consists of BDOSeidman and Grant Thornton (Cheng and Reichelt 2007). The third group is composed of audit firms (excluding the prior groups) with two or more partners, and the least group is made up of sole practitioners or single partner firms (Fuerman and Kraten, 2008).

Audit Quality is normally related to the ability of the auditor to identify material misstatement in the financial statements and their willingness to issue an appropriate and unbias audit report based on the audit results (Turley & Willekens, 2008). There are two approaches used to evaluate a decision in general, both are the outcome oriented and process oriented. (Chrystelle, 2006). For process-oriented approach, Richard (2006) argues that in the context of process-oriented, quality audit can be seen from: (i) the level of auditor's compliance to standards, (ii) the level of auditor specialization in a particular industry. For a results-oriented approach, Richard (2006) measured the quality of an audit by the result of audit. Audit result can be observed as the audit reports and financial report. The size observed in the audit report is to issue going concern opinions when the company went bankrupt. (Carey and Simnet, 2006) Schilder (2011) suggested audit quality from the perspective of the International Auditing and Assurance Standard Board (IAASB), which is an indicator used in this study. Conceptually, IAASB states that there are three fundamental aspects of audit quality, namely input, process and context factors. The input in audit quality has two dimensions: (1) personal attributes of public accountant with expertise and experience indicators, ethical values and mindset, (2) audit process with the indicator of the reliability of audit method, the effectiveness of the tool audit used, and the availability of technical support

DeAngelo (1981) propounded the reputation rationale theory for audit quality. In her work, she proxy audit quality using audit firm size and strongly asserted that the big audit firms have more to lose if they go ahead to supply audits of low quality. In Klein and Leffler (1981), a model for endogenous quality was formulated and was used to investigate firm reputation and audit quality. They assert in their findings that reputable firms provide high quality because of quasi-rents that they want to sustain and fear of losing should they fall into the temptation to cheat and thereby provide audit report of low quality. In other words, audit firms with reputation have affiliation with high quality because of the stream of income connected with the audit and would do all within their power to maintain it. Shapiro (1983) built on the model of Klein and Leffler (1981) to include a multi-period setting where there is free entry and in which reputation is an entry cost. In his summation, either firms would receive a price premium because of the motivation to produce quality audit or because of cost they incur to maintain their reputation. Beatty (1989) investigated the relationship between auditors' reputation and IPOs. Using a two-way classification to proxy reputation made up of either Big Eight or Non-Big Eight and the compensation received on the marginal cost of performing the audit, it was discovered that there is an inverse relation between auditor reputation and initial public offering initial returns. Specifically, the low initial returns are a resultant effect of the perceived audit quality associated with the reputation of the audit firm. Furthermore, he argues that auditing firms that have spent more on reputation capital have a higher motivation to reduce errors and mistakes thus; any

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information disclosed in the financial statement as audited by these firms is expected to have a higher audit quality.

Moizer (1997) in his work claims that the evidence of audit firm reputation can be seen in the financial environment stating that considerable evidence exist that shows Big Six firms are different from other firms. He argues that although audit quality is unobservable, it can be inferred from the market reaction to auditor change, the degree of IPO underpricing, and the Big Six audit premium. However, Mohamad and Nassir (1997) in their study of auditing firm reputation, ex ante uncertainty and the underpricing of Initial Public Offerings on the Second Board of the Kuala Lumpur Stock Exchange discovered that although reputable auditing firms have an incentive to investigate and report irregularities because of the fear of losing reputation hence ensuring audit quality, the perception of the users of the financial statement matters. Their findings specifically showed that Malaysian investors perceive no reputation effects on audit firms and that they (Big Eight/Six/Four and Non Big Eight/Six/Four) all provide homogeneous services.

Lennox (1999) agrees with the reputation and deep pockets theories. According to him, large auditors (reputable auditors) have a greater stake to avoid issuing inaccurate reports. Furthermore, it was argued that the litigation penalty suffered for inaccurate reports is also a determining factor to make auditors have to give quality reports (Dye, 1993). McLennan and Pack (2004) developed a model where financial auditors with identical technology were divided into two: one with a known reputation and the others lacked this feature. They discovered amongst other things that reputable audit firms charge higher fees and have economic rents as a result of their perceived reputation. Weber et al (2008) examined the reputation effect of audit firms using one of the Big Four (KPMG) as case study. They relied on the event of a financial scandal involving the audit firm and one of their clients in Germany and discovered that there was a fall in the number of KPMG clients as a result of the scandal and that other clients of KPMG sustained declining returns as a result of the negative publicity associated with financial scandals. In summation, their result agrees with theory that asserts support for the reputation rationale for audit quality.

2.1.1 Control variables

Extant literatures in the area of audit quality have suggested some other factors aside our main variable as determinants of audit quality therefore, as control for these other factors, we have included the most widely suggested factors. According to the Securities and Exchange Commission Final Rule, audit fee is the amount paid for annual audits and reviews of financial statements. It differs from the fees paid for the provision of non-audit services. It is the fee a company pays its external auditor as consideration for performing an audit. Yuniarti (2011) asserts that audit fee is a significant factor that affects the quality of audits. According to him, higher fees connote audit quality and improvement in audit quality may be attributed to audit fees earned in one year and the estimated operational costs incurred in implementing the audit process. Literature has also linked audit quality with the boards of directors, the board of audit committees. Researchers have shown that companies where audit committees are independent, the quality of audit is expected to be high (Carcello and Neal, 2000; Manry, Mock and Turner, 2005; Mgbame et al, 2012). Furthermore, according to Cadbury (1992), it is generally agreed that the effectiveness of audit committees is dependent on its level of independence. That is, a majority of its members if not all, should be independent.

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2.3 The Concept of Information Disclosure System

Information disclosure system means a series of behavioral regulations and activity standards for relevant parties in the securities market who publicize the information related with securities by certain way in the process of issuing stocks, listing on the market, and trading, according to laws, and rules of securities administrative agencies and Stock Exchanges. To ask companies that issue securities openly to execute the information disclosure system is the core content of modern securities market. It covers the whole process of securities' issues and circulation. Usually, before the issue of stocks, companies publicize stock-issuing introductions, listing announcements, interim reports, annual reports, and grave affair reports, mainly including companies operations and financial statements. Paragraph 10 of SAS 2 states that all accounting information that will assist users to assess the financial liquidity, profitability and viability of a reporting entity should be disclosed and presented in a logical, clear and understandable manner. Thus Part 4 of SAS 2 entails the information to be disclosed in financial statement. Thus, SAS 2 is one of the few Standards that has the overwhelming backing and support of Company Act 1968 (now CAMA 1990) (Kantudu, 2005).

In Nigeria, disclosure in financial statement reports started with the companies Ordinance of 1922 (as amended) and through to the Companies Act of 1968 and now the Companies and Allied Matters Act of 1990. The Financial Reporting Council of Nigeria (formerly NASB) is also involved in the efforts at evolving and promoting financial disclosure. The NASB was established in 1982 with the power to set and issue accounting Standards which have to be complied with while preparing financial statements. Before the promulgation of CAMA 1990 which has now become an Act under the civilian administration in Nigeria, compliance of financial statements with accounting Standards was persuasive but with the coming of CAMA of 1990, financial disclosure by companies is now a mandatory requirement. Nigeria has adopted the International Reporting Standards (IFRS), effective from 1st January,2012 and has as well changed the name of its national Standards setting body from the Nigerian Accounting Standards Board to the Financial Reporting Council of Nigeria.

Therefore, the concept of disclosure in financial reporting has been of primary significance in both accounting theory and practice in Nigeria. Its scope is in fact broad enough to encompass almost the entire area of financial reporting (Hendriksen and VanBreda, 1992). The significance of the concept is further established by the efforts being made by several groups such as International Accounting Standard Board (IASB) at international level, Financial Accounting Standard Board (FASB) in the USA and the Financial Reporting Council of Nigeria and others, to enhance the scope of accounting disclosure. The issuance of various Statements of Accounting Standards (SASs) by the Nigerian Accounting Standard Board (NASB) in 1985 to date could be seen in this light (Kantudu, 2005).

It should be stressed here that disclosure is one aspect of accounting practice where governments play key role. In Nigeria for instance, the companies and Allied Matters Act (CAMA 1990), the Bank and Other Financial Institutions Act (BOFIA), the Financial Reporting Council (FRC) Act and the Stock Exchange Act specify the kind of financial statements and the type of information which companies should present at Annual General Meetings (AGMs) as well as the rights and obligations of the shareholders in relations to the company.

One of the major objectives of financial reporting is to supply information to the users for making economic decisions. It then requires not only a proper disclosure of financial data and other relevant information but the how much of the information to be disclosed. Buzby, in Mccullers and Schroeder, 1982) argues that the specific inference to be drawn from the basic

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nature of adequate disclosure with respect to such things as target users, users' purposes, types of information to be disclosed, disclosure techniques, and disclosure timing are dependent upon complete and well defined set of objectives.

Therefore, the assumption is that the objectives of financial statements tend to have a universal appeal and application. The financial statements are required to be audited and opinion expressed by the auditors as to whether or not the financial statements give "a true or fair view" of the financial affairs of the company. Along this line of thought, we can infer that one of the objectives of financial statements in Nigeria is to achieve compliance with the requirements of accounting standards. This position is spelt out in section 335(1) of CAMA 1990 which provides that the financial statements of a company prepared shall comply with requirements of Accounting Standards with respect to their form and content laid down in the Statements of Accounting Standards issued from time to time by the then Nigerian Accounting Standards Board. The Act ushered in a new era of due diligence and conformity with Statements of Accounting Standards in the preparation of financial reports (Kantudu, 2005).

Similarly, corporate financial reporting entails the publication of accounting reports in respect of economic resources, obligations and performance of a reporting entity annually. For many years, published accounts consisted mainly of a Balance Sheet and Profit and Loss Account, until the mid seventies when a Statement of Source and Application of funds was also included. Furthermore, published accounts are also legally required to be prepared in such a way as to show the true and fair view of the profit or loss of the company for the period under review and its state of affairs as at the balance sheet date. The various accounting bodies also require that these financial accounts and reports should be prepared according to the Generally Accepted Accounting Principles (GAAP). However, because of the dynamic nature of the business environment which accounting is serving, these principles need to be well defined and reviewed from time to time to meet the demands of business. In addition, the financial statement should be made understandably enough so as not only to present a true picture of the present and past performance of the business enterprise but also to give an insight into the future. The information contained in such reports must also be relevant and reliable.

3.0 METHODOLGY

The study is aimed at ascertaining whether Auditor's reputation is not a significant factor in enhancing compliance with the requirements of Statement of Accounting Standards 2 (SAS 2) by quoted firms in Nigeria. Therefore, this study employed Ex-post facto research designs. The study utilized data from secondary source. Data were obtained from the annual reports and accounts of the twenty (20) quoted firms that made up the sample for the study for the period 2003-2012 and the requirements from Statement of Accounting Standard 2 (SAS 2). The population of the study is the two hundred and thirty-four (234) quoted companies on the first-tier market of the Nigerian Stock Exchange. The sample was drawn randomly, thus twenty (20) quoted companies were selected for the study (Asika, 1991 and Onwumere, 2009). They include First Bank of Nigeria Plc, Access Bank Nigeria Plc, UBA Plc, Guaranty Trust Bank Plc, Cadbury Nigeria Plc, Nigerian Breweries Plc, GlaxoSmithkline Plc, Royal Exchange Plc, Longman Nigeria Plc, May & Baker Nigeria Plc, A. G Leventis Nigeria Plc, Total Oil Nigeria Plc, Guinness Nigeria Plc, Cutix Nigeria Plc, Berger Paints Plc, Nestle Nigeria Plc, Seven up Bottling Company Plc, Flour Mills of Nigeria Plc, Unilever Nigeria Plc, Crusader Insurance Plc, Tripple Gee & Company Plc, Vitafoam Nigeria Plc, UAC of Nigeria Plc, Evans Medical Plc and Mobil Oil Nigeria Plc. They were selected on the premise that the companies have been complying with the requirements of information to be disclosed in financial statements (SAS 2)

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for over a decade. In this direction, a sample time frame of ten years was used for the study covering the period 2003-2012.
In this study, data generated through the secondary source were subjected to empirical test and statistical analysis. Similarly, this study borrowed from the works of Firth, 1979; Hossain, Tan and Adams, 1994; and Hossain, Perra and Rahma, 1995 and Kantudu, 2005 that determine whether that the type of auditors is not an important factor in explaining compliance with accounting standards. Therefore, the disclosure requirements or variables are enshrined in International Accounting Standards (IAS 5) see table below. These are obtained and concisely organized for the purposes of first, comparison with the annual reports and accounts of the ten (10) sampled firms covering the period from 2003 – 2012; second, for scoring; and third for grading and evaluation as per the degree of compliance with the respective items in the Standard. The data analysis technique utilized to test the hypothesis was the Spearman's Rank Correlation Analysis and the qualitative grading system.

Table 4.1 Requirements of International Accounting Standards 5 (IAS 5)

Paragraph II	Requirements of SAS 2	Rep. by Variables
	The name of the enterprise	r_1
	The period of time covered	r_2
	A brief description of its activities	r_3
	Its legal form	r_4
	Its relationship with its significant local and oversea suppliers	r_5
	Statement of Accounting Policies	r_6
	Balance sheet	r_7
	Profit and Loss Account or Income Statement	r_8
	Notes on the Accounts	r_9
	Cash Flow Statement	r_{10}
	Five Years Financial Summary	r_{11}
	Financial Implications of intercompany transfer and technical management agreement between the enterprise and significant local and oversea suppliers	r_{12}
	Financial Statement should show corresponding figures for the preceding periods	r_{13}

Source: Iternationa Accounting Standards 5 (IAS 5).

Table 4.1 Presents the requirements of the information to be disclosed in financial statements by quoted firms in Nigeria as contained in International Accounting Standards 5 (IAS 5), which the twenty (20) sampled listed firms have been complying or expected to comply with. These requirements are thirteen (13) in number as could be seen from the table. But for clarity in the presentation and analysis, the requirements are given numbers. For instance r_1, r_2, r_3, r_4, r_5, r_6, r_7, r_8, $r_{9,}$ r_{10}, r_{11}, r_{12} and r_{13} represented the thirteen (13) requirements of the information to be disclosed in financial statements by quoted firms in Nigeria as specified by the Statement of Accounting Standard 2 of 1985 and International Accounting Standards 5 (IAS 5), which enable the researcher to construct a compliance index. However, quoted companies in Nigeria are regarded to have performed their financial reporting obligations as far as these standards are concerned, if disclosure is made in the financial statement.

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Table 4.2 Criteria for Grading Compliance with the Requirement of IAS 5 by Quoted Firms in Nigeria

S/N	Letter Grade	Points	Form	General Remarks
1	A	8-10	Strongly Complied	Excellent
2	B	6-7	Semi-strongly complied	Good
3	C	4-5	Weakly complied	Poor
4	D	0-3	Non-compliance	Extremely Poor

Source: Researcher's Design 2014

Table 3.2 contained the decision criteria adopted in the study. The variables ordinarily ranked were used in our qualitative judgment of assessing the degree of compliance with the requirements of International Accounting Standard 5 (IAS 5) by quoted companies in Nigeria. We compared the 13 variables (the requirements of IAS 5) with the financial statements of sampled quoted companies and ranked appropriately using the qualitative grading system. The range is between 0-10 points. That is, any of the requirements disclosed by a quoted company in its annual accounts and reports attracts between 1-10 points. Quoted companies are therefore graded on the number of items observed as per the requirements of International Accounting Standard 5. If however, on overall a firm was able to score 10 in thirteen places then it is graded as having made an 'A' or scored 130 points or has excellently complied with the requirements of the Standard. Alternatively, a quoted company that scored zero (0) was graded as having an extreme poor compliance with the requirements.

The Spearman's Rank Correlation Analysis was used for the analytical presentation of the data and testing of hypothesis three which states that Auditor's reputation is not a significant factor in enhancing compliance with the requirements of International Accounting Standards 5 (IAS 5) by quoted firms in Nigeria. The reason for this method was because the study involved mostly secondary data that required running the data therein. Data were obtained from the thirty (30) sampled quoted firms annual accounts and reports listed on the first-tier market of the Nigerian Stock Exchange. The dependent variable is the total compliance index (shown in Table 4.1), while the independent variable is the auditors' reputation proxied by variable 10 and 5. If a firm is audited by the big three (Akintola Williams Deloitte, PriceWaterHouseCoppers and PKF Pannell Kerr Foster) scores 10 or otherwise 5 as shown in table 4, 15 below. They are therefore adopted to establish this evaluation exercise.

To this effect, the data used to test the hypothesis three is presented in the table below for the Spearman's Rank Correlation Coefficient:

Table 4.3: SPEARMAN'S RANK CORRELATION TEST DATA

FIRMS	AUDIT FIRMS	SCORE (%)	RANKING
Flour Mills of Nigeria Plc	Akintola Williams Deloitte	**95.4**	**10**
Unilever Nigeria Plc	PriceWaterHouseCoppers	**96.2**	**10**
Seven-up Bottling Co.	Egunjobi Adegbite & co	**90**	**5**
Nestle Nigeria Plc	KPMG Professional Services	**100**	**10**
Cutix Plc	Nnamdi Oyeka & Co.	**91.5**	**5**
Guinness Nigeria Plc	KPMG Professional Services	**100**	**10**

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Total Nigeria Plc	Akintola Williams Deloitte	**100**	**10**
A.G Leventis Nig. Plc	Akintola Williams Deloitte	**84.6**	**10**
Access Bank Plc	KPMG Professional Services	**92.3**	**10**
Chellarams Nigeria Plc	PKF Pannell Kerr Foster	**100**	**10**
First Bank Nigeria Plc	Akintola Williams Deloitte	**92.3**	**10**
Guaranty Trust Bank	KPMG Professional Services	**92.3**	**10**
Tripple Gee & Company	Mojibayo Ogunmoyero & Co.	**92.3**	**5**
Crusader Insurance Plc	PriceWaterHouseCoppers	**84.6**	**10**
Julius Berger Nig. Plc	Akintola Williams Deloitte	**92.3**	**10**
Evans Medical Nig. Plc	PriceWaterHouseCoppers	**100**	**10**
UBA Nigeria Plc	Akintola Williams Deloitte	**92.3**	**10**
Paterson Zochonis Plc	PriceWaterHouseCoppers	**92.3**	**10**
Beta Glass Nigeria Plc	PriceWaterHouseCoppers	**100**	**10**
Nigerian Aviation Hand	Horwath Dafinome	**100**	**5**

Source: Annual Reports and Accounts 2003 – 2012

4.1 The Spearman's Rank Correlations

The nonparametric Spearman's rank correlation was used in testing the hypothesis, that the auditor's reputation is not a significant factor in enhancing compliance of IAS 5 in Nigeria. The auditor's reputation was assessed by a dummy variable taking the value of 1 when the firm is audited by the "big 3" (Akintola Williams Deloitte &Touche, Pricewaterhousecoopers and Pannell Kerr Forster (PKF)) firm and 0 if otherwise (KPMG Audit, Osindero Oni & Lasebikan, Pannell Awobo Yusuf and Messrs BDO Oyediran Faleye Oke). Table 2 in appendix B contains the data for this test.

4.2 The Relationship between Reputation of Audit Firms and Application of IAS 5

The result of the Spearman's rank correlation, which examines the relationship between reputation of audit firms and application of IAS 5 were presented in Table 4.4

Table 4.4: Spearman's Correlations Result on Reputation of Audit Firms and Application of IAS 5

			Application of SAS 2	Reputa. of audit firms
Spearman's	Application of IAS 5	Corr. Coef.	1.000	.264
		Sig. (2-tailed)	-	.158
		N	20	20
	Reputa. of Audit Firm	Corr. Coef.	.264	1.000
		Sig.(2-tailed)	.158	-
		N	20	20

Source: ***Spearman Rank Correlation Coefficient Result using SPSSWIN***

Table 4.4 shows a result which is not significant as indicated by the 2 – tailed test of 15.8% level of significance. In other words the correlation between the degree of compliance with the

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requirements of IAS 5 and reputation of audit firms is very weak. Thus, we reject the alternate hypothesis and accept the null hypothesis that the auditor's reputation is not a significant factor in enhancing compliance with IAS 5 by quoted firms in Nigeria. Impliedly this means that in Nigeria the higher the reputation of an audit firm, the lesser its client companies comply with the requirements of IAS 5. This result even though, consistent with the conclusion of prior studies (Kantudu, 2005; Firth, 1979; Hossain, Tan and Adams, 1994; and Hossain, Perra and Rahma, 1995) that the type of auditors is not an important factor in explaining compliance with accounting standards, it still contradicts findings in Singhvi and Desai (1975) and Raffournier (1995 and 1998) who found significant relationship between auditor's reputation and extent of disclosure in annual reports. The implication of this finding is that in Nigeria a wide gap exists between the reputation of audit firms and the application of IAS 5.

4.0 CONCLUSION AND RECOMMENDATIONS

In this paper, an attempt was made to identify the meaning, rights, reputation of an auditor, accounting standards as well as its significance in financial reporting. Similarly, the importance of enforcement and penalties for non compliance in ensuring compliance with the requirements of accounting standards were highlighted. The paper also reviews some of the arguments made regarding the effects of auditor reputation or size on compliance with accounting standards. The results of the review of literature show a mixed result between audit firm size or type and compliance with accounting standards. This paper has also shown that failure to comply with accounting standards in Nigeria (with the enactment of NASB Act 2003) is an offence punishable in the court of law, which can result to a fine, outright proscription or de-listing in case of audit firm or accountants. Thus, from the result of literature review and analysis of data, we conclude that even though quoted firms in Nigeria do comply with the requirements of IAS 5, on the average the application is low and falls within the very weak level. And while firms emphasize more on less important requirements, they pay less attention to those requirements that add value and quality to their financial statements. Firms audited by reputable auditors exhibit low level application of the requirements of accounting standards on Information disclosed in Financial statement (IAS 5). We therefore, recommend that the accounting regulatory body (FRC of Nigeria) and other regulatory bodies such as CBN, NSE, SEC, Corporate affairs commission and others should ensure that quoted firms in Nigeria apply the requirements of IAS 5 and other accounting standards through proper and effective monitoring and enforcement of penalties for non compliance. Secondly, the paper recommends for annual awards for the best complying firms and their auditors and, penalties and appropriate punishments for non compliers and their auditors. Consequently, we further recommend the publication in national dailies of complying and non-complying firms including their auditors.

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