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To Link this Article: <http://dx.doi.org/10.6007/IJARBSS/v8-i3/3943>

DOI:10.6007/IJARBSS/v8-i3/3943

*Received: 27 Feb 2018, Revised: 22 Mar 2018, Accepted: 28 Mar 2018*

Published Online: 31 Mar 2018

**In-Text Citation:** (Okaro, Okafor, & Ofoegbu, 2018)

**To Cite this Article:** Okaro, S. C., Okafor, G. O., & Ofoegbu, G. N. (2018). Mandating Joint Audits in Nigeria: Perspectives and Issues. *International Journal of Academic Research in Business and Social Sciences*, 8(3), 325–346.

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**Vol. 8, No. 3, March 2018, Pg. 325 – 346**

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## **Mandating Joint Audits in Nigeria: Perspectives and Issues**

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### **Abstract**

This paper reviews the benefits and costs of joint audits (audits in which financial statements are audited by two or more independent auditors), and ascertains the perceptions of stakeholders (Nigerian accountants, auditors, and accounting academics) as an important determining factor as to whether Nigeria's government should make joint audits mandatory. Accountants, auditors, and accounting academics were surveyed in Nigeria using a Likert-type questionnaire. Responses to the questions were analyzed using simple percentages and independent *t*-test statistics. Clarifications were also sought from partners of accounting firms. The study revealed little agreement among stakeholders on the desirability of mandated joint audits in Nigeria, although there was general agreement that the benefits outweigh the costs involved. The open-ended questions, and the clarifications provided by some accounting practitioners shed further light on the issues surrounding the use of joint audits in Nigeria. This study contributes to the current debate in Nigeria, on whether joint audits should be mandated, by eliciting the opinions of three important stakeholder groups. This study adds to the current literature on joint audits, and highlights avenues for further research, both in Nigeria, and in other developing countries.

**Keywords:** Joint Audits, Perception, Audit Quality, Audit Market and Mandate

### **Introduction**

The issue of audit quality has been a major concern for the accounting profession, and accounting regulators globally, given the consequences associated with recent audit failures. Investors have suffered heavy losses following company failures, leading to a loss of confidence in capital markets, and recent global financial crises, the Enron scandal, and the failure of the auditing firm Arthur Andersen, have all cast doubt on audit quality, and market concentration. In 2010, the European Commission (EC) issued a green paper, entitle *Audit Policy*, to address this issue of audit

quality, which has contributed to the ongoing debates on how best to enhance audit quality, including whether joint audit should be made mandatory (EC, 2010).

A joint audit can be defined as an audit in which financial statements are audited by two or more independent auditors (Ratzinger-Sakel *et al.*, 2013). In a joint audit, two different audit firms form an opinion about a client's financial statements. It follows that both audit firms are liable for their opinion. Joint audits are conducted in the same manner as single audits. However, the monitoring process between the two auditors as well as the discussion of audit findings are of particular importance as they will ordinarily result into higher audit quality (Julia and Rudolf, 2012). Debates on whether joint audits should be made mandatory have centered on the advantages and disadvantages of joint audits. The major arguments of proponents of joint audits that it has the potential to discourage companies from changing their auditors simply to get different auditing results (Craswell, 1988; Petty and Cuganesian, 1966; Lennox, 2000), and that it prevents over-familiarity that may erode audit quality (Deis and Giroux, 1996; Ragbunathan *et al.*, 1994; Zeff, 2003; Francis, 2004; Carrera *et al.*, 2007). Opponents of joint audit however, contend that it would result in additional costs (Ratzinger-Sakel *et al.*, 2013). Many studies have investigated joint auditing and its impact on audit quality, auditor independence, audit fee, and market concentration. Many of these studies have focused on developed countries and developed capital markets e.g. Velte and Azibi (2015) using data from Germany and France, Zerni *et al.*, (2012) using data from Sweden, Deng *et al.* (2012), using data from France, Lesage *et al.*, (2012) using data from Denmark, and Groff and Salihovic (2016) using data from Slovenia). These studies, which also identified various challenges for joint audit, for example, the criteria for planning the audit, sharing the audit work, and determining the audit fee between the two auditors (Ratzinger-Sakel *et al.*, , (2012). However, the results from these studies have usually been mixed probably because of the different characteristics of the various countries studied. Most countries have adopted mandatory joint audits in banking, insurance, and corporate groups (Sweden in 2006, South Africa in 1990, Canada in 1923, France in 1966, and Denmark in 1930). Denmark, however, abrogated its joint audit law in 2005 (Ratzinger-Sakel *et al.*, 2012).

A small number of developing countries also have made policies on joint audits. These include Algeria, Congo, Morocco, India, and Tunisia. In Nigeria, in 2010, the president of the Institute of Chartered Accountants of Nigeria (ICAN) called for mandatory joint audits in Nigeria to address the structure of the Nigerian audit market, which appeared to be dominated by the Big Four audit firms (Ajaegbu, 2014). The Big Four audit firms are, however, opposed to mandatory joint audits in Nigeria, preferring instead a voluntary joint audit regime (Ejoh, 2015). On 17 October 2016, the Financial Reporting Council of Nigeria (FRCN) introduced a unified code of corporate governance for the Nigerian private sector (FRCN, 2016). One of the provisions of the code was mandatory joint audits for firms. The code led to much criticism from investors and other interest groups for some of its provisions, including mandatory joint audits. The Nigerian government was eventually compelled to suspend the implementation of the code (The Guardian, 2016).

Some Nigerian studies have recommended mandatory joint audits as a solution to auditing market concentration in Nigeria (Okaro and Okafor, 2013; Asien, 2014; Olowookere, (2016); Olugbenga *et al.*, (2016) examined whether the introduction of a joint audits would lead to the improved audit and earnings quality of listed companies in Nigeria. The study failed to establish

such relationship, but recommended voluntary joint audits in Nigeria for a number of reasons, including increased opportunity for growth for small and medium-sized accounting practice. However, a positive significant relationship was established between joint audits and earnings management in Nigeria's listed deposit money banks (Jayeola *et al.*, 2017). Although joint audits are deemed to be more costly than single audits in the Nigerian environment (Asien, 2014), the mandating of joint audits in Nigeria would help in tackling the problem of those in the political elite, who run companies that retain only the non-Big Four audit firms, for fear that better audit quality may reveal some aspects of their transactions that they would not like to disclose (Abdulmalik *et al.*, 2016).

Our motivation for this study was the controversy surrounding the mandating of Joint audits in Nigeria which partly accounted for the suspension of the 2016 FRCN unified code of corporate governance, and the mixed nature of the findings on mandating joint audits in Nigeria as outlined above. The need for further studies on the issue of mandating joint audits in Nigeria has become urgent in the light of a fresh attempt by FRCN to resolve the differences among stakeholders before re-enacting the code. More importantly, it underscores the need for stakeholder buy-in for the success of any regulation.

This study aims to help policy makers and practitioners to understand the perceptions of accountants, auditors and accounting academics regarding the advantages and disadvantages of joint audits in Nigeria. It will also assist regulators, in particular the FRCN, as they tackle the issue of making joint audits compulsory in Nigeria. The paper will also build on precious studies, and contribute to the limited literature on joint audits in emerging economies, with particular reference to Nigeria. This study examines the perceptions of accountants, auditors and accounting academics regarding the advantages and disadvantages of joint audits in Nigeria, and whether they should be made mandatory, by answering the following questions:

- (1) What are the perceptions of accountants, auditors and accounting academics regarding the advantages and disadvantages of joint audits in Nigeria?
- (2) What is the opinion of these three stakeholder groups on whether joint audits should be made mandatory in Nigeria?
- (3) Do the opinions of the stakeholders differ significantly among the different groups?

### **The State of the Audit Market in Nigeria**

A 2004 World Bank-sponsored report on the observation of standards and codes in Nigeria indicted the accounting regime in Nigeria, observing that auditing standards were non-existent, and ethical codes were not in line with international requirements, and monitoring and enforcement mechanisms were weak, except for the banking sector (World Bank, 2004). Nigeria has come a long way in addressing some of the issues raised above. For example, the FRCN a recommendation by the World Bank for Nigeria, was established in 2011, and has been at work promoting sound corporate finance and audit reporting practices. The ICAN, one the two recognized accounting bodies in Nigeria (the other being the Association of National Accountants of Nigeria (ANAN)), is now issuing Nigerian Auditing Standards. These standards are closely aligned to the International Auditing Standards (ICAN, 2013). Ethical codes have been revised and are now in line with international standards. The ICAN and the ANAN have also incorporated

these new ethical codes in national syllabi. The ICAN has also resumed, with renewed vigor, the peer review of its member firms.

However, the audit market in Nigeria remains weak. The disciplinary machinery of the various professional bodies, and even the regulators, appears to be ineffective and weak. For example, auditors who were responsible for audit failures in some Nigerian banks unearthed in 2009 were never sanctioned by their professional bodies. The Nigerian Securities and Exchange Commission imposed a fine of ₦20 million on the offending accounting firms, but took no further action, such as prosecuting the indicted partners of the firm. The same applies to the auditing firms indicted in the Cadbury (Nig) accounting and the Nigerian Stock Exchange scandals. Most of the companies accused were those audited by the Big Four accounting firms. (The Big 4 accounting firms operating in Nigeria are PricewaterhouseCoopers, Deloitte/Akintola Williams, Ernst and Young, and KPMG). In Nigeria, the litigation culture is weak. The result is that the authorities rarely sue auditors for poor audit work in Nigeria. In addition to the audit quality issue in Nigeria, other factors (such as employment for indigenous manpower, local content Act, audit market concentration etc) have been shown to be linked to the call for joint audits in Nigeria. The 2004 World Bank report also revealed that the Big Four international accounting firms audit 90% of companies in Nigeria, while the 15 national firms with international affiliation audit the remaining 10 %. The situation might have improved by the Big Four's share dropping to 67.5% and the wholly owned Nigerian firms and other smaller international firms, sharing the remainder (Asien, 2014). Not only does the dominance of the Big Four make it difficult for other firms to compete, but, to make matters worse, the Big Four are rapidly becoming a Big Three. In the wake of the two recent audit scandals involving Cadbury (Nig) Plc and the Nigerian Stock Exchange, Deloitte/Akintola Williams was mentioned on both occasions for not living up to expectations (Nairaland, 2008; Keyamo, 2010; the Nigerian Voice TNV, 2010). A cursory look at the Nigerian Stock Exchange Fact Book reveals that, following this adverse publicity, firms are switching from Deloitte/Akintola Williams to the other Big Four audit firms.

The Local Content Act requires that domestic accounting firms should not be limited in their choice of audit firms (Nigerian Development Management Board (NCDMB), 2010). However, this does not happen in practice in the audit market in Nigeria, as the Big Four audit firms dominate the market, especially for public limited liability companies quoted on the stock exchange. Also, the rate of unemployment in Nigeria, which has risen to an astronomically high level, has led to a substantial body of opinion that joint audits should be encouraged so as to foster the entry of more accounting firms into the audit market. The expectation is that this will provide employment for accounting graduates and professional accountants currently unemployed in Nigeria. A new complexity in the audit market in Nigeria is the existence of politically connected public companies that would rather give out their audits to non-Big four audit firms, for fear that the Big Four firms would not condone their lack of accountability and transparency (AbdulMalik, et al., 2016).

## Literature Review

### Conceptual Framework

Discussions concerning joint audit usually revolve around its impact on audit quality and audit costs. However, institutional factors that impinge on joint audits, and which may be country-specific, need to be considered. In the case of Nigeria, one such additional factor is audit market concentration.

Audit quality is the ability of an audit exercise to detect material error and fraud leading to material misstatements in the financial statements where such exist (Sakimi *et al.*, 2017). De Angelo (1981) defines audit quality as an assessment by the market of the combined probability that an auditor will simultaneously discover an anomaly, or significant irregularity, in the client company accounting system, and publish this anomaly or irregularity. Proxies for audit quality include discretionary accrual, the use of the Big Four (an indirect measure of audit quality), the presence of internal auditors who report to the board, opinion on going concern of distressed companies, the extent to which earnings targets are exceeded, abnormal discretionary accruals, earnings management, etc. The list is endless, confirming the difficulty in agreeing on a single definition of audit quality.

Most discourses on joint audits emphasize their effects on audit quality. The argument that joint audits will have salutary effect on audit quality is founded on the conventional wisdom that “two heads are better than one,” and the fact that an auditor’s independence is safeguarded in a regime of joint audit. Deng *et al.*, (2012), however, argued that joint audits may compromise auditor independence as they give clients the opportunity for opinion shopping. In a joint-audit setting, competition among auditors creates incentives to “please” the client. Another impairment of audit quality, especially in cases where a technologically less efficient firm (a small audit firm) is chosen, is the “free-rider” problem, defined as when one auditor relies on the other auditor’s work resulting in a lower reliability of the audit evidence.

The notion that joint audits will cost more than a single audit is rationalized by the fact that two or more auditors will cost more in terms of fees, because of coordination costs among the auditors. Also, in a first audit, start-up costs will be incurred because the auditor will first need to familiarize himself/herself with the business activities and environment of the company. A low-balling strategy can only reduce costs in the short term, since such a strategy pursued to crowd out competition, and create entry barriers, before subsequently increasing prices. However, this is difficult to prove empirically because it is difficult to obtain the cost structures of firms publicly. Additional technical and time resources would also be necessary in keeping with the “four-eyes principle.” This would have the effect of increasing joint audit costs. However, there could be a potential cost reduction if the joint auditors are equal and efficient (Velte, 2017).

A joint audit between a Big Four audit firm and a smaller audit firm is connected to a decreased audit market concentration. In Nigeria, the argument is that the pairing of Big Four and small or medium-sized firms would afford the small or medium-sized firms the opportunity to build capacity, in terms of technology and the employment of additional graduates. It would also satisfy the Local Content Act in Nigeria, which emphasizes the encouragement of indigenous accounting firms in the provision of audit assignments.

In this study, we rely on Ratzinger's model to investigate mandatory joint audit situation from the perspectives of its effects on audit quality, audit cost, independence, and audit market concentration. This model was chosen because it goes beyond the traditional audit quality and audit cost which other researchers emphasize, to incorporate audit market concentration and auditor independence that are germane to a developing country like Nigeria.

#### Prior Research

Results of empirical studies on joint audits are mixed. For example, one study found a positive and significant association between audit fees and joint audits, and an insignificant relationship between abnormal accrual and joint audits, which suggests that joint audits come with additional costs that do not lead to a higher audit quality (Ratzinger-Sakel, *et al.*, 2011). In a related study by Lasege *et al.*, (2012) that included one of the authors of the above-mentioned research, insignificant relationships were observed between abnormal accruals and joint audits, confirming the mixed results of the previous study. A similar study found that joint audits have an insignificant effect on the value of firms and auditor independence (Khatab, 2013). Joint audits have been proposed as a remedy for the apparent lack of independence of auditors and low audit quality, as they can stimulate audit market competition (Zerni, *et al.* 2012). Many discourses on joint audits emphasize their effect on audit quality (Deng *et al.* 2012; Zerni, *et al.* 2012; Mahmoud *et al.*, 2015 and Lesage *et al.*, 2012). Many studies have documented that auditors in a joint audit environment using a joint auditing approach achieve higher consensus rates (Julia and Rudolf, 2012).

#### Benefits and Cost of Joint Audits

The benefits of joint audit depend heavily on the effectiveness of its implementation (Piot, 2007). Some research results indicated that joint audit has some advantages (Zerni *et al.*, 2012; Zerni *et al.*, 2012), others showed negative consequences (Deng *et al.*, 2012; Lesage *et al.*, 2012; Ratzinger-Sakel 2012; Velt and Azibi, 2015). The literature reviewed by Ratzinger-Sake *et al.*, (2012) revealed that no empirical evidence had shown the full impact of joint audits; hence the authors called for more research to properly identify the benefits of joint audit. Since 2012, more studies have been undertaken, because audit market concentration has been seen as more of an issue. Our review is based on Mazars (2014) outline benefits of joint audits which were more comprehensive and detailed than other works on advantages of joint audit.

#### Mitigation of market concentration

One of the critical goals of the EC for demanding more joint audit arrangements was to promote greater diversity in a highly concentrated audit market where the audits of listed companies were mainly dominated by the Big Four auditing firms (Ratzinger-Sakel *et al.*, 2012). Therefore, Europe and other countries considered implementing auditors'- rotation and joint audits as means of combating, or reducing, audit market concentration, at least for public interest entities (Paunescu, 2015). A concentrated audit market creates entry barriers for other auditing firms, results in a lack of choice, creates a systemic risk to market stability, and, above all, creates an avenue for the big firms to unduly influence the regulators (Carrera *et al.*, 2007). Currently, the Big Four audit firms have an oligopoly on public interest entities, which prevents competition in the market (Paunescu, 2015).

The problem posed by audit market dominance by the Big Four audit firms has been an issue recognized by many countries. For instance, Groff and Salihovic (2016) researched audit market concentration for the segments of listed and non-listed entities in Slovenia. The result indicated a high audit market concentration for listed companies, but a low audit market concentration for non-listed companies. The study observed a continuous decline in concentration levels for non-listed businesses and the differences in the degree of concentration in the two groups, and concluded by lending its support to, and justifying the decision of the EC to prepare a separate, more stringent, set of rules for the statutory audits of public interest entities (PIEs). The US Government Accountability Office also researched audit market concentration, and showed that the Big Four audit firms accounted for 94% of total revenue for listed companies in 2016, and was even higher, at 96% in 2002 (Groff and Salihovic, 2016). In Croatia, Sanja and Mateja (2015) examined the audit market concentration with the aim of determining whether the regulators could be justified in considering implementing appropriate measures to reduce audit market concentration and stimulate competition. The overall results of research carried out indicated that large audit firms dominated the Croatian audit market for listed companies, and those bigger clients, to some extent, favored the Big Four audit firms. Some of the reasons discovered for Big Four dominance of the audit market were: their reputation; their ability to execute complex audits requiring technical expertise; and their experience (Sanja and Mateja, 2015). Other reasons included the availability of human and financial resources, specialized software, expertise, knowledge, high quality control procedures, credibility, global reach, and industry expertise (Paunescu, 2015 and McKeeking, 2006). Superior technical abilities and the offer of insurance, are part of the advantage the Big Four audit firms have and, on this basis, McMeeking (2007) recommended mandatory auditor rotation, or compulsory joint audits, to encourage businesses to think beyond the Big Four firms.

Paunescu (2015) studied the audit market structure of listed companies and the impact of adopting International Financial Reporting Standards (IFRS) in Romania. The findings indicated that an increased number of quoted companies moved from local auditors to the Big Four audit firms, with the Big Four's market share increasing by 3% in 2012. For the mid-tier audit firms (medium-sized companies, substantially increasing their share of the audit market), the researchers found a growth of 50% in 2012. In 2013, the average market-share increase was 15% for both the Big Four and mid-tier audit firms. The authors concluded that the increase was a result of the introduction of IFRS, whose application demands international best practice and expertise. Kermiche and Piot (2014) lent support to the EU's commission's 2011 position on the potential benefits of joint audit in mitigating the market concentration in their study that focused on whether joint audit regulation was likely to reduce the audit market concentration, in the long run, using France as a study area. However, the authors suggested that it might not be necessary to impose mixed joint audits (joint auditors configuration) to achieve that objective.

Through joint audit arrangements, small and medium-sized audit firms should be introduced into the audit market of the major multinational companies. The entrance of small and medium-sized audit firms into the audit market could to mitigate the market concentration and prevent the dominance of the auditing industry by a few big players. The Foundation for Economic Education (FEE) (2011) emphasized that the primary objective of joint audits was to reduce audit market



concentration by building capacity for smaller audit firms in the audit market over and enlarging their geographical reach. This entry might not be an easy task because “the creation of a new reputable auditor is not simply a case of encouraging the medium sized audit firm to grow” (McMeeking, 2006: p.5). For example, the FEE (2011) cited the example of France, where mandatory joint audit existed for the audit of consolidated financial statements of all companies, without any restrictions on the size of the audit firms involved in the joint audit. The audit clients were allowed discretionary choice of auditors. Still, the concentration in the audit market of listed entities was relatively high. Joint audit between small and large audit firms was mostly performed only for smaller listed entities.

Suggestions made for mid-tier audit firms to enter the market, grow and compete with the Big Four firms were mergers; the introduction of tax and other incentives by the government; and mandatory rotation (McMeeking, 2006; RRS, 2010). Through joint audit, competition among auditing firms can potentially be increased (Ratzinger-Sakel *et al.*, 2012).

Joint audits present a real avenue for lowering concentration, as evidenced by what has happened in France. In France, where mandatory joint audits have been adopted for the statutory audit of listed companies that publish consolidated financial statements, the auditing industry is considerably more diversified and competitive than other nations in the European Union (Loh and Fua, 2012). For instance, Thornton (2010) research reported that the Big Four audit firms had 84% of the market share of the G8 countries, and 70% share of the world audit market. The author emphasized that it was only in France that the medium-sized companies command a considerable market share of large company audits (Thornton, 2010 as cited by Sanja and Mateja, 2015). Bhawan (2016) reported that the Big Four audit firms had 61% of EU audit market while their audit market share in France was 46%. Regulators in Croatia are considering reforms to dilute the dominance of the Big Four and improve competition (Sanja and Mateja, 2015). The advantages of a competitive audit market are well canvassed and include enhanced audit quality and, potentially, reduced audit costs in the long run.

#### Reinforcement of Audit Quality

One of the reasons for the EU proposal for reforms in audit service delivery was the EU’s concern that the presence of only a few audit firms, performing audits for the largest and most complex companies, could affect audit quality. Research results on the influence of joint audits on audit quality are mixed. One study reported limited evidence that joint audits led to increased audit quality, but that there was no empirical evidence to demonstrate clearly its improvement on audit quality (Ratzinger-Sakel *et al.*, 2012). However, subsequent empirical studies have recorded a positive association between audit quality and joint audits. For example, one study rejected mandatory rotation of auditors, but recommended joint audits as being able to enhance audit quality (Asian, 2012). Another study provided evidence that auditors that use a joint-audit approach achieve higher consensus and higher accuracy (Julia and Rudolf, 2012). An Egyptian study on joint audits and audit quality, using panel data from companies listed on the Egyptian stock exchange, found that enterprises audited by joint auditors were more conservative in their earnings than companies audited by single auditors. However, no significant difference was found in the levels-of-earnings conservatism between businesses mandatorily audited by joint auditors and enterprises voluntarily audited by joint auditors. Furthermore, they found no

significant differences in the level of earning conservatism among companies, whether they had been joint-audited by only Big Four audit firms or not (Ghanem and Assy, 2015).

A Saudi Arabian study on joint audits, and the cost of equity capital in a mandatory audit regime, found a decreasing cost of ownership when two independent auditors performed the audit, as opposed to a single auditor. However, investors in Saudi Arabia were more comfortable if such joint reviews were carried out by the Big Four audit firms (Alsadoun and Aljabr, 2014). Marco and Roberto (2016) examined the relationships between voluntary joint audits and earnings quality, as well as the reasons why some firms decided, on a voluntary basis, to be joint audited, in the Italian context. The result of the study indicated that a joint audit is positively related to earnings quality, and that firms choose to be audited by two different auditors mostly because of their ownership structure, size, and operational complexity.

However, Velte and Azibi (2015) could not find any clear positive links between joint audits and audit quality. Instead, they had substantial evidence to prove that joint audits could lead to increased price competition. In the same way, results of the study carried out by Zerni *et al.* (2012) suggested that voluntary joint audit leads to higher quality audits, but that increased audit costs accompany the benefit. Another study concluded that mandating joint audits with small audit firms to reduce market concentration could lead to detrimental effects on audit quality (Deng *et al.*, 2012). However, proponents of joint-audit arrangements believe that it can lead to the sharing of audit experience, knowledge, and expertise, thereby leading to an overall improvement in audit quality (Loh and Fua, 2017).

#### *Reinforcement of Auditor Independence*

Joint audits have been proposed as a remedy for the apparent lack of independence of auditors as they will, enhance audit quality and also stimulate audit market competition (Zerni *et al.*, 2012). Mazars (2014) also claimed that joint audits could support auditor independence. Deng *et al.* (2012) compared one big firm and one small firm in their study, and they found that audit independence was unlikely to be compromised by joint audits in either case, and that, although it is more expensive to compromise auditor independence through joint audits, joint audits provide an opportunity for a company to “shop” for a better audit opinion (Deng *et al.* 2012).

#### *Reduction of Audit Costs*

There is some evidence that joint audits lead to additional costs (Ratzinger-Sakel *et al.*, 2012). Lesage *et al.* (2012) documented evidence that joint review is significantly associated with higher audit fees in Denmark. The low audit cost earlier recorded by Holm and Thinggaard (2011), as cited by Ratzinger-Sakel *et al.* (2012), was a result of switching from joint auditing to single audit firms, which led to audit fee discounting. Audit fee discounting is used by audit firms to compete for business, and is explained as a situation where an auditor discounts fees so that the client will be motivated to retain him for a period long enough for him/her to recoup the losses incurred for the discounted costs (Hoffman and Nagy, 2017).

Zerni *et al.*, (2012) argued that the benefits of joint audit do not outweigh the costs. According to the authors, besides the audit costs, there is the need to consider the more significant indirect

costs of joint audits: one auditor relying on the work of another (free-riding), which may decrease the precision of the audit evidence and personal opinion shopping, which may compromise auditor independence. Their results also showed that the choice of a joint audit substantially increases the fees paid by the client firm, especially for a higher perceived level of quality audit. However, research results have also shown that the choice of joint audits can actually decrease audit fees. For example, Gonthier-Besacier and Schatt (2007) found that the significant factors that determine audit fees in French quoted firms were risk, and size of business audited, and not the presence of Big Four audit firms. Their study revealed that joint audits involving two Big Four audit firms actually reduced audit fees, contrary to expectations of higher costs. The decrease in fees was attributed to the sharing of qualifications and skills, as well as of potential risks, between the two. The audit fees were higher where only one Big Four firm was involved in a joint audit, because the Big Four firm charged an additional fee, owing to the uneven distribution of expertise and reputation (Gonthier-Besacier and Schatt, 2007).

## Methodology

### Population

To carry out the research, 400 accounting professionals who attended a conference of the ICAN, held in Awka, Nigeria, in July 2014, were targeted for the survey. They included both academics and those working in both the private and public sectors of the Nigerian economy. This provided an opportunity to elicit information from respondents of varied backgrounds and different geopolitical zones of the country. Descriptive statistics were used to identify the perceptions of the interviewees. Independent *t*-tests were then used to determine any differences in the respondents' perceptions. We also sought clarifications from an audit partner from the Big Four and another partner from a small to medium-sized firm.

### Sample

The study adopted Taro Yamane's (1964) sampling formula in drawing a sample of 200 at a tolerable error of a 5% level of significance because the population was finite. The questionnaire was randomly administered to the 200 participants. The reported results of this study are based on responses from 157 out of the 200 individuals from academia, industry, and the public sector who were identified for the purpose of this study. This gave a response rate of 79%, which is considered adequate for the purpose of this study (Mgbame *et al.*, 2012). The researchers developed and pre-tested the questionnaire for the identified respondents. Three accounting professionals were used to pre-test the questions in the survey and necessary amendments made as a result of their feed-back.

### Questionnaire

The survey was designed to identify the effects of joint audits on audit quality. The questionnaire had two sections. Section A had three questions about the respondent's gender, the title of the job, and years of experience (see the Appendix). Part B consists of 15 questions. The first 14 questions required individuals to rate their extent of disagreement or agreement with each of the statement based on a five-point Likert scale ranging from (1)"strongly disagree" to (5) "strongly agree." Question 15 was an open-ended question meant to elicit information on other effects of joint audits on audit quality not captured in the questionnaire. The responses to

question 15 were collated on the basis of frequency counts. However, outstanding answers were also included where they further clarified the issues at stake. The questions were based on the review of the literature. In particular, the benefits claimed for joint audits by Mazars (2014) and the ICAN were used to frame the questions. Some of the benefits canvassed by ICAN were peculiar to Nigeria. They include: enhancing capacity building by small Accounting firms, providing avenue for employment and empowerment of Chartered Accountants, and ensuring compliance with local content Act.(Ajaegbo, 2014b)

#### Characteristics of the Respondents

The background information section of the question obtained data relating to the features of the interviewees. Question 1 asked the respondents to indicate their gender. The result showed that 122 (78%) were males and 35 (22%) were females. This is not surprising given that men hold most senior roles in academia, -industry and even in the public sector. Question 2 required the job titles of the respondents. A total of 43 (27%) were auditors, 97 (62%) were accountants, and 17 (11%) were accounting academics. Question 3 required that respondents indicate the number of years of experience they have had at their current jobs. A total of 113 of the interviewees (72%) have had five or more years of experience in their present positions, while 44 (28%) had less than five years of experience. Respondents, therefore, reflected an appropriate mix of experiences.

Our prior expectation was that auditors may be more conservative in their rating of the questions, since they are not a homogenous group (i.e. the Big Four and non-Big Four auditors). On the other hand, we expected the accounting academics to rate less conservatively, from an academic perspective.

#### Results and Discussion

Respondents to the questionnaire were required to indicate, on a five-point Likert scale the extent of their disagreement or agreement with the 14 questions included in the survey ranging from strongly disagree to agree strongly. The descriptive statistics of the responses are shown in

**Table 1 Descriptive statistics of the responses**

S/ N	Statements	Percentage of agreement (n =157)	Rank
	<i>Advantages of joint audits</i>		
1	Joint audit helps to mitigate risk of over familiarity with the client as work among the joint auditors can always be rotated.	87.3	2nd
2	Joint audit improves the quality of audit and financial reporting as "four eyes are better than two"	93.0	1st
3	It gives opportunities for more auditing firms to enter the market	78.3	3rd
4	It helps to keep the audit firms on their toes as a firm would not like to be out done by the joint audit firm	78.3	3rd
5	It helps to reduce dominance of the audit market by the big audit firms.	64.3	5th
6	In the particular circumstances of Nigeria, joint audits will help reduce unemployment of accounting professionals and graduates.	66.2	4th
7	In a joint audit situation collusion between the management of the company and the audit firms becomes more difficult.	66.2	4th
	<i>Disadvantages of joint audits</i>		
8	Joint audit is costly to audit clients	65.0	1
9	It creates coordination problems among the joint auditors	43.9	2
10	There is a danger in joint audits that certain aspects of the audit work may be duplicated or omitted.	39.5	3
	<i>Others</i>		
11	On the whole, the benefits of joint audits outweigh its costs	83.4	
12	Making joint audits compulsory in Nigeria will improve audit quality.	61.8	
13	Joint audits should be made mandatory for all companies in Nigeria.	20.4	
14	Joint audits should be made mandatory for only public companies in Nigeria because of cost considerations.	43.9	

**Source: Researchers' compilation**

**Notes:** Disadvantages were ranked separately from advantages. Other statements, from 11–14, stood alone and were not ranked.

From Table I we find that the most important advantage of joint audits, from the perspective of the respondents (93%), is that it improves the quality of audit and financial reporting as “four eyes are better than two.” The second most important advantage (87.3%) is that joint audits mitigate the risk of over-familiarity with the client, as work among the joint auditors can always be rotated. The joint-third most important advantages (78.3%) are that joint audits give opportunities for more auditing firms to enter the market (78.3%), and that joint audits help to keep the audit firms on their toes, as a firm would not like to be outdone by the other joint audit firm. The joint-fourth most important advantages (66.2%) are that, in the particular circumstances of Nigeria, joint audits will help reduce unemployment among accounting professionals and graduates, and that in a joint-audit situation, collusion between the management of the company and the audit firms becomes more difficult.

The respondents agree that joint audits are costly to clients (65%). However, they agree that the benefits of joint audits outweigh the costs (83.4%). On whether making joint audit compulsory in Nigeria would improve audit quality, 61.8% agreed. The respondents did not agree that joint audit should be made mandatory either for all companies (only 20.4% agreed) or public companies (only 43.9% agreed).

**Table II.: A breakdown of the various stakeholders’ perceptions**

S/ N	Statements	Individual groups’ percentage of agreement					
		Academics (n=17)		Accountants (n=97)		Auditors (n= 43)	
	<i>Advantages</i>	Percentage	Rank	Percentage	Rank	Percentage	Rank
1.	Joint audit helps to mitigate risk of over familiarity with the client as work among the joint auditors can always be rotated.	94.1	1	87.6	2nd	83.7	3rd
2	Joint audit improves the quality of audit and financial reporting as "four eyes are better than two"	94.1	1	92.8	1st	93.0	1st
3	It gives opportunities for more auditing firms to enter the market	70.6	5	76.3	3	86.0	2nd
4	It helps to keep the audit firms on their toes as a firm would not like to be out done by the joint audit firm	88.2	2	75.3	4th	81.4	4th
5	It helps to reduce dominance of the audit	76.5	4	64.9	6th	58.1	6th

	market by the big audit firms.						
6	In the particular circumstances of Nigeria, joint audits will help reduce unemployment of accounting professionals and graduates.	76.5	4	68.0	5th	58.1	6th
7	In a joint audit situation collusion between the management of the company and the audit firms becomes more difficult.	82.4	3	63.9	7th	65.1	5th
	<i>Disadvantages</i>						
8	Joint audit is costly to audit clients	64.7	1	67.0	1	60.5	1
9	It creates coordination problems among the joint auditors	41.2	2nd	42.3	3rd	48.8	2nd
10	There is a danger in joint audits that certain aspects of the audit work may be duplicated or omitted.	29.4	3rd	43.3	2nd	34.9	3rd
	<i>Others</i>						
11	On the whole, the benefits of joint audits outweigh its costs	82.4		83.5		83.7	
12	Making joint audits compulsory in Nigeria will improve audit quality.	82.4		64.9		46.5	
13	Joint audits should be made mandatory for all companies in Nigeria.	29.4		20.6		16.3	
14	Joint audit should be made mandatory for only public companies in Nigeria because of cost considerations.	64.7		40.2		44.2	

**Source: Researchers' compilation**

As shown in Table II, the stakeholders were consistent in approving all the benefits claimed for joint audits (over 50% of each stakeholder group approved each benefit in the questionnaire).

The responses of the stakeholder groups were similar in some areas, but different in others. All the groups, for example, ranked the fact that joint audit improves the quality of audit and financial reporting, as “four heads are better than two,” first (94.1% of accounting academics, 92.8% of accountants, and 93% of auditors). Regarding costs, all three groups agreed that joint audits are costly to audit clients (64.7% of academics, 67% of accountants, and 60.5% of auditors). There was also general agreement among the groups that the benefits of joint audits outweigh the costs (82.4% of academics, 83.5% of accountants, and 83.7% of auditors).

There are, however, some differences in the perceptions of the three groups. Regarding making joint audits compulsory in Nigeria to improve audit quality, accounting academics agreed (82.4%), as did accountants (64.9%). However, only 46.5% of the auditors agreed to the proposition. Differences were again observed among the groups regarding the question as to whether joint audits should be made mandatory for Nigerian public companies only. A total of 64.7% of academics agreed with this position; however, accountants (only 40.2% agreed) and auditors (only 44.2% agreed) did not agree with the proposition. The response of academics regarding mandating joint audits in Nigeria improving audit quality is consistent with their agreement that joint audits should be mandated in Nigeria, albeit for public companies only. The response of auditors on both scores, though negative, is also consistent, reflecting perhaps, the division in opinion between the Big Four auditors and the small- to medium-sized auditing firms in Nigeria. The opinions of accountants were, however, not consistent. Accountants agreed that making joint audit compulsory in Nigeria would improve audit quality (64.9%), but did not support the idea of mandating joint audits for even public companies in Nigeria (only 40.2% said yes). A possible explanation is that companies should be allowed to make their choice in the interest of industrial democracy. A small percentage of each of the groups (29.4%, 20.6%, and 16.3%, respectively) supported the mandating of joint audits for all companies in Nigeria.

The final question (question 15) required respondents to make any suggestions that could help shed more light on the effect of joint audits on audit quality. Some of the responses stated that joint audits would positively affect audit quality, depending on the audit firm(s) involved, possibly because joint audits address auditors' independence and competence. One of the respondents also suggested that, where joint audits are independently constituted, they would improve the quality of audits, and also improve the knowledge of the auditors. Another stated that mandatory joint audits are desirable and, indeed, beneficial for public companies.

To get further clarifications on the apparent differing positions, in respect of joint audits, taken by the Big Four auditors in Nigeria, and the small- and medium-sized auditing firms, we sought the opinion of a partner with Ernst & Young at the third ICAN Academic Conference, Lagos, in June 2017. His response was that the Big Four were not opposed to joint audits, but that it should not be made mandatory. Similarly, a partner in a Nigerian accounting firm, Onyemere and Co. at a forum in Awka, Nigeria in October 2016, reiterated the need for the small and medium-sized auditing firms to scale up their technology to be able to benefit from a mandatory joint-audit regime in Nigeria.

To determine whether there were significant differences in the perceptions of the various stakeholder groups, we ran independent *t*-tests. The result is shown in Table III.



**Table III. t- Test Results**

Statement	Accountants/ academics	Auditors/ academics	Auditors/ accountants
1	-0.22 (0.83)	-0.19 (0.85)	-0.02 (0.99)
2	-1.10 (0.27)	-1.39 (0.17)	-0.64 (0.52)
3	-0.94 (0.35)	2.10 (0.04)*	1.98 (0.05)
4	-0.53 (0.60)	-0.18 (0.86)	0.51 (0.61)
5	-0.90 (0.37)	-1.21 (0.23)	-0.65 (0.52)
6	0.48 (0.63)	-0.36 (0.72)	-1.26 (0.21)
7	-1.42 (0.16)	-1.27 (0.21)	0.03 (0.97)
8	-0.35 (0.73)	-0.84 (0.41)	-0.81 (0.42)
9	0.74 (0.46)	0.91 (0.37)	0.50 (0.62)
10	1.24 (0.22)	0.35 (0.73)	-1.28 (0.20)
11	0.07 (0.95)	-0.01 (1.00)	-0.100 (0.92)
12	-2.04 (0.04)*	-2.04 (0.05)	-0.27 (0.79)
13	0.37 (0.71)	0.10 (0.92)	-0.38 (0.71)
14	-1.28 (0.20)	-0.76 (0.45)	0.54 (0.59)

**Source:** Researchers' compilation

**Notes:**

*t*- test results with level of significance in parenthesis.

\* Significant issues.

From Table III, only two statements recorded significant differences. Auditors and accounting academics differed significantly on the statement that joint audits provide an opportunity for more auditing firms to enter the market (statement 3) Auditors rated the statement higher (86% said yes) than accounting academics (70.6% said yes). The other statement that showed significant difference between stakeholder groups was statement 12, which stated that making joint audits compulsory in Nigeria would improve audit quality. Accounting academics rated the statement higher (82.4% agreed) than accountants (64.9% agreed).

The reasons for these significant differences in the perceptions of accounting academics, on one hand, and the other two groups, on the other hand, could be because the accountants in industry, and auditors in practice, are at the center of events. Their knowledge is based more on practice than academics, who are not actually in practice. They may know other reasons that can hinder audit quality, even if mandatory audit is implemented in Nigeria. Also, the auditors (especially those in small- and medium-sized auditing firms) are eager to join the audit market and, thus, have an incentive to agree that mandatory joint audits will enable them to enter the market.

**Policy Implications**

The first implication of our study is that there is a polarization of opinion among Nigerian stakeholders on whether joint audits should be made mandatory in Nigeria. The stakeholders in this study do not support mandating joint audits for all companies in Nigeria. However, accounting academics do support mandating joint audits for public companies, only, in Nigeria. The FRCN does not, therefore, have the full support of accountants and auditors in mandating into law, through the unified code of corporate governance, joint audits in Nigeria, either for all

the companies, or for public companies only. With the suspension of the code, an opportunity has arisen for the FRCN to consult widely before arriving at a decision on whether joint audits should be mandated in Nigeria, to ensure acceptance of any future decisions on the issue.

The second implication of our findings is that the leadership of the ICAN should revisit its policy of support for mandatory joint audits in Nigeria, as it risks polarizing the profession, given the differing opinions held by its membership.

The third implication is that Nigerian regulatory authorities can immediately set in motion regulatory measures to encourage voluntary joint audits in Nigeria, as all the stakeholders in this study agree on its desirability.

Fourth, our study has shown that research on joint audits in emerging economies cannot be limited primarily to audit quality and cost considerations (as is the case in some Western models). Audit market concentration is a very important consideration in many emerging economies because of the oligopolistic nature of the audit markets occasioned by the dominance of the Big Four audit firms, that are largely foreign owned, existing side by side with weaker small- and medium-sized indigenous audit firms. Such oligopolistic audit markets have implications for the employment of local accounting graduates and professionals in emerging economies that often have high unemployment rates. There are also implications for capital outflows/ inflows for emerging economies, because of the nature of the ownership of the Big Four audit firms, as well as implications for need for technology transfer from the big firms to the local indigenous accounting firms.

Future research in emerging markets on joint audits should further explore the above areas.

#### *Summary and conclusion*

The objective of the study was to investigate the perceptions of professional accountants performing diverse functions in their respective organizations on mandating joint audits, as well as to articulate the benefits, and associated costs, of joint audits in Nigeria. To achieve this objective, the study used a questionnaire survey to ascertain the perceptions of 200 professionals, comprising auditors, accountants, and accounting academics. A total of 157 usable responses were received, upon which the results of this paper are based. The results were analyzed using simple percentages. Independent *t*-tests were used to determine whether the stakeholder groups' opinions differed significantly.

The findings of this study include:

- Respondents agreed that voluntary joint audit in Nigeria is desirable as the benefits of joint outweigh its costs, have a salutary effect on audit quality, reduces audit market concentration and helps the employment of indigenous accounting graduates.
- 2. Auditors and Accountants in Nigeria do not agree that joint audits should be made mandatory for public companies
- Nigerian accounting academics support the idea of mandating joint audits for public companies

Deriving from the above findings we make the following recommendations:

- Nigerian regulators should drop the idea of mandating joint audit in Nigeria for now.
- Instead, the regulators should encourage the idea of voluntary joint audits in Nigeria by providing incentives for companies that have joint auditors especially those who combine the big four firms with the small/medium scale ones. This will help reduce the

audit market dominance of the big firms and also hopefully result in providing more jobs for indigenous accounting graduates

- Other means of strengthening the eternal audit function should be explored by Nigerian regulators. This includes putting policies to make audit committees of public companies in Nigeria more effective.

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