



Effects of Unprofessional Behavior and Auditors' Inadequate Knowledge on the Quality of External Audit Reports

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ABSTRACT

The study examined effects of unprofessional behavior and auditors' inadequate knowledge on the quality of external audit reports. Descriptive survey research design was used in this study. The participants in this study were 500 auditors from Lagos, Nigeria. A simple random selection procedure was used to choose the sample of 150 auditors. Data was collected using a well-structured questionnaire, validated by professionals, and tested for reliability. The Cronbach-Alpha technique yielded a reliability coefficient of 0.79. The instrument was administered in two ways: physically by the researcher at the respondents' offices and with the assistance of two research assistants. Instrument of the study was also sent to the telegram and whatsapp groups of the auditors for responses. Percentage, frequency counts, mean and standard deviation were used to answer the research questions while regression was used to test the hypothesis formulated at 0.05 level of significance. The finding revealed that, statistically unprofessional behaviour and auditors' inadequate knowledge have significant effects on the quality of external audit reporting. The study concluded that unprofessional behavior and auditors' inadequate knowledge are affecting the quality of the report of external auditors. The study recommended, among others, that unprofessional behaviours among auditors should be addressed and should not be allowed to tarnish the image of audit profession so that users such as investors, shareholders, creditors, government, public, employers, and employees will not lose confidence in the quality of external audit reporting of the external auditors

Keywords: External Auditor, Unprofessional Behaviour, Inadequate Knowledge, Quality of Audit Reports

Journal Reference Format:

Awotomilusi, N. S. & Owonifari, V. O. (2022): Effects of Unprofessional Behavior and Auditors' Inadequate Knowledge on the Quality of External Audit Reports . Humanities, Management, Arts, Education & the Social Sciences Journal. Vol. 10. No. 1, Pp 65- 74 www.isteams.net/humanitiesjournal. [dx.doi.org/10.22624/AIMS/HUMANITIES/V10N2P8](https://doi.org/10.22624/AIMS/HUMANITIES/V10N2P8)

1. INTRODUCTION

The quality of external audit reports is very important not only for investment decision-making but for many other purposes. External audit report enhances the credibility of financial statements through the independent opinion of the external auditors.



The independence of the auditor is strengthened when the auditor is free from any obligation to or interest in the auditee. Auditors' independence can be more strengthened when audit committee is the hirer of external auditor and the oversea over audit function. The opinion of the auditor provides credence to the financial statement and enhance the reliance of stakeholders such as employees, investors, suppliers, regulators, international organisations, non-government organisation, government, creditors, and host communities etc. on the financial statement.

The purpose for which the report serves each user differs. For these reasons, the quality of an audit report must not be compromised so that it will not affect the decisions of others. Most users make their investment decisions when they review the audited financial statement. Hence, achieving a quality audit seems to be one of the responsibilities of the external auditors. That is why DeAngelo in AL-Qatamin and Salleh (2020) defined "audit quality as a market-developed presumption that an auditor would be able to identify and disclose a substantial violation (i.e. inaccuracy) and report it to the appropriate authorities."

The importance of a quality audit is to provide investors' confidence in the accuracy of financial reports and to increase trust in corporate reporting. However, the recent collapse of many companies has posed a serious doubt about the quality of audit reports of external auditors. "Worldcom in 1998, Enron in 2001, Parmalat in 2003, Cadbury Nigeria Plc in 2006, and Afribank Nigeria Plc in 2009 are examples of corporations that failed as a result of the auditing controversy" (Daniel, 2019). It is possible that the collapse of these firms was caused by unethical professional practices among auditors, despite the various standards that guide the conduct of external auditors in performing their responsibility in audit reporting. It seems unethical behaviour among auditors is the bane to producing high audit quality. Many unethical practices have been observed to be affecting the quality of external audit reports in Nigeria.

The rate at which companies are folding up has called for the attention of many researchers. Empirically, many studies have been conducted to identify the unprofessional practices that are affecting the quality of external audit reporting. Nor, Smith, Ismail, and Nahar (2015) affirmed that insufficient experience and lack of expertise could influence the auditors to involve in unprofessional behaviours which include inadequate investigation of errors or misstatements, or too much dependence on the documents supplied by the clients; all of these would have effects on audit investigations. Ogungbade et al. (2020) investigate the "effect of audit quality on the financial reporting quality of Nigerian deposit money banks listed on the stock exchange 2009-2018". The data were retrieved from audited financial statement of 11 money deposit banks in Nigeria. Multiple panel regression and fixed effect model were used to analyzed data for the study. According to the findings, audit tenure, audit fees and firm size jointly affect financial reports quality FRQ. However, from the results of the analysis audit fee was significant.



Awe (2019) investigated “the audit independence and credibility of financial reporting in the Nigerian banking sector”. Descriptive survey was adopted. The purposive sampling techniques was used for selection of 250 accounting and auditing department employees of Guarantee Trust Bank, Polaris Bank, First Bank of Nigeria, Zenith Bank, and Diamond Bank, Lagos State, Nigeria. Fifty (50) respondents were selected as sample. Descriptive statistics such as frequencies, percentages, mean and standard deviation were employed. The findings revealed that; auditor’s independence has significant impacts on the financial statement understanding ability in Nigeria banking sectors. It was also revealed that independence of auditor had significant and positive effect on the relevance of financial statement in the banking sectors in Nigeria. The correlation analysis revealed that auditor’s independence is positively related to faithful representation of financial statement.

The study conducted by Nor, et al (2015) examined unethical audit behavior (reduced audit quality practices) among Malaysia auditors; an exploratory study. Survey research design was adopted. Data were collected from the Malaysia institute of Accountants. Frequency counts, percentages and ANOVA were used to analyze the data. The results showed that practicing in non big four audit firm, and less auditing experience reduced audit quality practices in Malaysia.

Anggraini, and Siswanto (2016) examined “the role of perceived behavioral control and subjective norms to internal auditors' intention in conveying unethical behavior: A case study in Indonesia”. The sample of 117 of state owned enterprises were used. The data were analyzed by Warp PLS 4.0. The findings revealed that subjective norms have no effect on the relationship between attitude and intent to commit fraud but perceived behavior control does. This implies that observed behavioural control, but not subjective norms might reduce the impact of attitude and intent of internal auditors in revealing fraud.

From the above, it could be inferred that quality audit report has been the major concern of the public, investors and stakeholders in different countries. Based on these users concern, it seems worrisome as many of the audited companies or firms seem to be folding up day by day. In Nigeria, it seems unprofessional behavior among auditors are still on the increase. Therefore, this study examined unprofessional behavior and auditors’ inadequate knowledge as variables that seem to be affecting the quality of external audit reporting in Lagos State.



1.1 Purpose of the Study

The purpose of the study was to investigate the effects of unprofessional behavior and auditors' inadequate knowledge on the quality of external audit reporting in Lagos state. The study specifically examined:

- i. the effects of unprofessional behaviour on the quality of external audit reporting.
- ii. the effects of auditors' inadequate knowledge on the quality of external audit reporting.

1.2 Research Questions

The following two research questions were raised to guide the study

- i. What are the effect of unprofessional behaviour on the quality of external audit reporting?
- ii. What are the effect of auditors' inadequate knowledge on the quality of external audit reporting?

1.3 Hypothesis

One research hypothesis was formulated for the study

- i. There is no significant effect of unprofessional behaviour and auditors' inadequate knowledge on the quality of external audit reporting.

2. METHODOLOGY

Descriptive survey research design was used in this study. The participants in this study were 500 auditors from Lagos, Nigeria. A simple random selection procedure was used to choose the sample of 150 auditors. Data was collected using a well-structured questionnaire. The instrument was validated by professionals, and the instrument's reliability was ensured. The Cronbach Alpha technique yielded a reliability coefficient of 0.79. The instrument was administered in two ways: physically by the researcher at the respondents' workplaces, and with the assistance of two research assistants. Instrument of the study was sent to the telegram and whatsapp groups of the auditors for responses. Percentage, frequency counts, mean and standard deviation were used to answer the research questions while regression was used to test the hypothesis formulated at 0.05 level of significance.



3. RESULTS

3.1 Descriptive Analysis

Research Question 1: What are the effect of unprofessional behaviour on the quality of external audit reporting?

Table 1: Responses on the effects of unprofessional behaviour on the quality of external audit reporting

S/N	Item	SA	A	D	SD	Mean	St.D	Decisions
1	Unprofessional behaviour affect the reliability of audit reporting	38 (28.1)	87 (64.4%)	8 (5.9%)	2 (1.5%)	3.19	0.60	Agreed
2	Unprofessional behaviour affect the usability of audit reporting	66 (48.9%)	55 (40.7%)	8 (5.9%)	6 (4.4%)	3.34	0.78	Agreed
3	Unprofessional behaviour affect the accuracy of audit reporting	75 (55.6%)	60 (44.4%)	-	-	3.55	0.49	Agreed
4	Unprofessional behaviour devalue the lack of integrity of audit reporting	52 (38.5%)	62 (45.9%)	21 (15.6%)	-	3.22	0.70	Agreed
5	Unprofessional behaviour affect the level of credibility of auditors that certified audit reports	80 (59.3%)	47 (34.8%)	8 (5.95)	-	3.53	0.60	Agreed
6	Unprofessional behaviour affect the users confidence on audit reporting	70 (51.9%)	61 (45.2%)	4 (3%)	-	3.48	0.55	Agreed
7	Unprofessional behaviour affect the quality of audit reporting	40 (29.6%)	82 (60.7%)	13 (9.6%)	-	3.20	0.59	Agreed
8	Unprofessional behaviour affect the image of the audit reporting	90 (66.7%)	43 (31.9%)	2 (1.5%)	-	3.65	0.50	Agreed
	Weighted Mean					3.39		Agreed

Mean equal or grater than 2.50 indicate Agreed otherwise "Disagreed"

Source: Filed Survey 2021

The result presented in table 1 revealed that majority (92.5%) of the respondents showed that unprofessional behaviour affects the reliability of audit reporting, usability of audit reporting (89.6%), accuracy of audit reporting (100%), unprofessional behaviour devalue the lack of integrity of audit reporting (84.4%), unprofessional behaviour affects the level of



credibility of auditors that certified audit reports (94.1%), users confidence on audit reporting is affected by unprofessional behaviour (97.1%), quality of audit reporting is also affected by unprofessional behaviour (90.3%), and 98.6 of the respondents indicated that unprofessional behaviour affects the image of the audit reporting. Hence, the result showed that the unprofessional behaviour of auditors affects the quality of audit reporting in Nigerian audit firms. The mean values in table three are greater than 2.50 which further confirmed that respondents agreed with all the items in the table. The weighted mean further justified the claimed that unprofessional behaviour has some effects on the quality of external audit reporting in Nigeria.

Research Question 2: What are the effects of auditors' inadequate knowledge on the quality of external audit reporting in Nigeria?

Table 2: Responses on the auditors' inadequate knowledge affects the quality of external audit reporting

S/N	Item	SA	A	SD	D	Mean	St.D	Decisions
1	Auditors inadequate knowledge enhance the credibility of audit reporting	-	-	62 (45.9%)	73 (54.1%)	1.45	0.50	Disagreed
2	Auditors inadequate knowledge improves the standard of audit reporting	-	-	57 (42.2%)	78 (57.8%)	1.57	0.49	Disagreed
3	Auditors' inadequate knowledge helps to examine the audit reporting very well and firm the right opinion	-	-	73 (54.1%)	62 (45.9%)	1.54	0.50	Disagreed
4	Auditors inadequate knowledge helps to detect wrong figures incorporated into the audit reporting	-	-	63 (46.7%)	72 (53.3%)	1.46	0.49	Disagreed
5	Auditors inadequate knowledge help organization to identify frauds	-	-	81 (60%)	54 (40%)	1.60	0.45	Disagreed
6	Auditors inadequate knowledge promote quality audit reports	-	-	39 (28.9%)	96 (71.1%)	1.28	0.45	Disagreed
7	Auditors inadequate knowledge add value to audit reporting	-	-	55 (40.7%)	80 (59.3%)	1.40	0.49	Disagreed
	Weighted Mean					1.47		Disagreed

Mean equal or grater than 2.50 indicate Agreed otherwise "Disagreed"

Source: Filed Survey 2021



The result presented in table 2 revealed that majority (100%) of the respondents disagreed that auditors inadequate knowledge enhance the credibility of audit reporting, auditors inadequate knowledge improves the standard of audit reporting (100%), auditors' inadequate knowledge helps to examine the audit reporting very well and form the right opinion (100%), disagreed that the auditors inadequate knowledge helps to detect wrong figures incorporated into the audit reporting (100%), auditors inadequate knowledge help organizations to identify frauds (100%), auditors inadequate knowledge helps to promote quality audit reports (100%), and (100%) of the respondents disagreed that auditors inadequate knowledge add value to audit reporting. The grand mean of 1.40 is lesser than the cut-off point, this indicated that there was strong negative reaction from the respondents on the statements. Therefore, the result showed that auditors' inadequate knowledge has effects on the quality of external audit reporting in Nigerian.

Hypothesis: There is no significant effect of unprofessional behaviour and auditors' inadequate knowledge on the quality of external audit reporting.

Table 3 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.932 ^a	.869	.867	.52751

A. Predictors: (Constant), UNB, AIK

Table 4: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	243.001	2	121.501	436.626	.000 ^b
	Residual	36.732	132	.278		
	Total	279.733	134			

a. Dependent Variable: QAR

b. Predictors: (Constant), UNB, AIK

Table 5: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.277	.568		4.006	.000
	AIK	.236	.030	.262	7.964	.000
	UNB	.861	.029	.972	29.548	.000

a. Dependent Variable: QAR



Table 3 revealed that unprofessional behaviour and auditors' inadequate knowledge explained 86.9% of the variance in the quality of external audit reporting. The remaining 13.1% can be traced to other factors not considered in this study. The results presented in table 4 showed that statistically, unprofessional behaviour (UNB) and auditors' inadequate knowledge (AIK) jointly have significant effects on the quality of external audit reporting (QAR) since $F = 436.626$ and p -value less than 0.05 level of significance. Hence, the null hypothesis was rejected. Table 5 shows that the Beta coefficient of 0.972 revealed that unprofessional behavior had effect on the audit reporting quality while the Beta coefficient of 0.262 indicates that auditors' inadequate knowledge had an effect on the audit reporting quality. Furthermore, the t -value at 7.964 $P < 0.05$ and 29.548 $P < 0.05$ also confirmed that unprofessional behaviour and auditors' inadequate knowledge had significant effects on the quality of external audit reporting independently.

From the results presented, it could be deduced that if an external auditor does not professionally carry out his duties during an audit exercise, it will have great effects on the quality of audit reports. Also, the auditor's inadequate knowledge was found to be another key variable that is influencing the audit reporting quality of external auditors in Nigeria. The future effects of this is that the more unprofessional behaviour and auditors that have no adequate knowledge are allowed to operate among the external auditors, the more inaccurate audit reports will be presented to the users, thereby affecting their investment decision making.

4. DISCUSSION OF FINDINGS

The study showed that unprofessional behavior has effects on the reliability of audit reporting, usability, accuracy, the level of credibility of auditors who satisfied audit reporting, users' confidence, the quality of audit reporting, and the image of external audit reporting. The study supports Nor, et al. (2015), who showed that less auditing experience and practicing in non-big four audit firms, reduced audit quality practices in Malaysia. Also, the findings is in line with the findings of Ogunbade, Adekoya, and Olugbodi (2020) who found that audit fees have a significant positive effect on the quality of financial reporting of deposit money banks (DMBs) in Nigeria. This is because unprofessional behavior could be facilitated by money.

Also, the study revealed that auditors' inadequate knowledge is a strong factor that affects audit reporting as it leads to poor extensive audit/examination of audit reporting and biased opinions on the quality of the audited reporting. Also, it reduces the credibility of audit reports and tarnishes the public image of the principal companies. The study is similar to Awe (2019), who revealed that the auditor's independence has a significant impact on the understandability of financial statements in the banking sector in Nigeria.



Furthermore, the study revealed that the more unprofessional behaviour and auditors who do not have adequate knowledge are allowed to operate among the external auditors, the more inaccurate audit reports they will be certifying and presenting to the users, which will thereby affect their investment decision making.

5. CONCLUSION AND RECOMMENDATIONS

The study investigated effects of unprofessional behavior and auditors' inadequate knowledge on the quality of external audit reporting in Lagos state. The study basically investigated unprofessional behavior and auditors' inadequate knowledge, among other variables that have an effect on the quality of the reports of external auditors in Lagos state. From the results, it was concluded that unprofessional behavior and auditors' inadequate knowledge statistically had significant effects on the quality of the report of external auditors.

The future effects of this findings is that allowing unprofessional behavior and an auditor who does not have adequate knowledge to operate as an external auditor will always lead to the adoption of inaccurate audit reports, which will thereby affect the decision of the users of the financial statement for informed decision. Hence, the study recommended that unprofessional behaviours among auditors should be addressed and should not be allowed to tarnish the image of audit profession so that users such as creditors, shareholders, investors, public, government, employers, and employees will not lose confidence in the quality of reports of the external auditors. Also, external auditors who do not have adequate knowledge of auditing should not be allowed to practice in Nigerian audit firms so that the purpose of audit reporting will not be undermined.



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