

IMPACT OF AUDIT STANDARDS ON FINANCIAL PERFORMANCE



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IMPACT OF AUDIT STANDARDS ON FINANCIAL PERFORMANCE

Abstract

The main objective of this study is to explore the impact of audit standards on financial performance of companies in Nigeria. This study focused on the use of secondary data to establish a relationship exist between audit standards and financial performance. In terms of audit standards, key audit matters and relevant disclosures have been observed to see if there is an impact on financial performance. This study adopted explorative research design. The population of the study consist of 169 listed companies and the sample size of the study is 20 listed companies and it was selected using judgemental sampling technique. The study discovered that the audit standards in Nigeria impact the financial performance of firms and other factors like key audit matters and relevant disclose can improve financial performance of firms. The study recommended that companies should take addressing their key audit matters raised by the independent auditor because beyond transparency it improves the actual financial performance of firms.

Keywords: Audit standards, Key audit matter, financial performance

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Chapter 1: Introduction

1.1 Introduction

The acknowledgement of audit standards on financial performance provides an appropriate direction in the course of financial assessment of a firm. With regards to this concern, the study involves the background of the research, the rationale, the discussion, the significance and the relevance of the topic. Additionally, it will also provide an analysis of the issues associated with the topic in the problem statement, describing the reason behind exploring this topic. This chapter has also provided the aims and objectives of the study.

1.2 Background

According to Knechel (2013), it can be stated that the standards of audit are basically the rules and established requirements which provide a direction to the auditor while he is about to evaluate the financial assessment of an organisation. In Nigeria, the Nigerian Standards on Auditing (NSA) is usually provided with all the official and unofficial rules that are to be followed by the auditor for financial performance assessment of a firm (International Federation of Accountants, 2016). These usually include regulations, legislations, standard setting body declarations, judicial judgement in situations involving auditors and professionals and internal regulations as well that constitute accepted practices even when there are no official public declarations which have been published (NSA, 2012). On the other hand, it can be stated that the Companies and Allied Matters Act of 1990 (CAMA) usually has all the guidelines available on their websites (Ogenyi, 2021). The international standard of Audition provides all the necessary details regarding the guiles which will be followed by the auditors. Basically the audit standard is there as it provides the auditors with a set of rules regarding the action and procedures they are supposed to follow while assessing the financial performance. The evaluation of the financial performance also includes assessment of the financial statement of the firms, and understanding the fairness with which the financial statements have been presented to them. This automatically involves regulation which is going to provide a basis on which the fairness of the statement will be evaluated.

1.3 Problem Statement

Based on the above discussion it can be stated that audit standards are required for assessing the legitimacy with which the financial reports have been presented in order to measure financial statements. Without audit standards it will be very difficult for the auditor to understand the basis

upon which the fairness of the reports can be tested. In order to respond to this transparency plays a significant role along with various standards. One of the most regular issues which are encountered by the audit officers is their inability to collect enough data to prove that the financial statement may have been falsely presented and this include false information asset, ownership, valuation, management and several others. Apart from that it has been identified by George-Silviu and Melinda-Timea (2015) that often the auditors detect that a material misstatement associated with financial statement which has been provided by the company and it creates further issues if the auditors understands that the wrong information provided in the statement may not have been detected by the internal control of the organisation. Therefore, based on these issues it can be stated that there are several incidents where there is fraudulence associated with the financial statement provided to the auditor. In this study those issues will be explored in detail in order to be able to provide some mitigation strategies and on the ways that the audit standard can assist in eliminating such problems.

1.4 Research Significance

The significance of the research lies in the fact that audit standards are essential to evaluate the financial performance of the firms in the most systematic and truthful manner. As it has been recognised from the above discussion it can be stated that there is still a lack of transparency in the manner that statements are provided where misstatements are informed and the auditor makes use of the guidelines to acquire that transparency through various trial and error methods following the standards before submitting his final report (Abdullah, Almsafir and Al-Smadi, 2015). As it can be stated that while determining the magnitude of insufficient information that they have detected in the financial statement, following to the generally accepted accounting principle, the auditors have the right to enquire further in order to ensure that the transactions which has been showcased are legit and therefore the permit to prepare the financial statement could be approved. Furthermore, in accordance with the auditing principles if the auditors are not convinced that the transactions showcased are not enough information to permit the preparation of the financial statement based on the grounds of material weakness. Therefore, it is significant to study this subject and understand what material evidence is required in order to attain the permit for the financial reporting.

1.5 Research Rationale

Based on the above discussion it can be stated that audit standards play an essential role in determining financial performance of an organisation. The audit officers follow the standards or principles like the generally accepted principle to continue the audit and maintain the standards throughout while ensuring that the information provided by the firms is not false information. In that scenario the auditors have a set of standards that they will follow to ensure whether there was any misstatement in the financial statement and transaction data that has been shown to the auditor (Hazaea et al., 2020). On the other hand, the audit standard also ensures that the auditor has enough knowledge and training to conduct an audit and determine the financial performance of a company efficiently. Along with the general standards it also ensures that proper planning has been included in order to supervise the assistants. It has been identified that it ensures that the auditor gathers enough evidence during the entire procedure in order to support the decision or the opinion that will be presented by the auditor regarding the performance of the organisation. Therefore it can be stated that the research rationale is to understand the various aspects of the audit standards which ensures the rightful evaluation of the financial performance of a firm.

1.6 Research Aim and Objectives

The aim of the research is to understand the role that audit standards play in assessing the financial performance of an organisation ensuring proper planning and authenticity of the audit process.

The main objective that this study will be endeavouring to fulfil in this research are

- To evaluate the impact of audit standard on the financial performance of Nigerian companies
- To assess the role of audit standards in improving financial performance of Nigerian companies.
- To evaluate the impact of key audit matters on the financial performance of Nigerian company

1.7 Research Questions

The research questions for this research study were:

- Does audit standards have an impact on the financial performance of Nigerian companies?
- Does Key audit matters have an impact on the financial performance of Nigerian company?

1.8 Research Hypothesis

H1: Audit standards have an impact on the financial performance of Nigerian companies.

H0: Audit standards do not have an impact on the financial performance of Nigerian companies.

H1: Key audit matter has an impact on the financial performance of Nigerian companies

H0: Key audit matter does not have an impact on the financial performance of Nigerian companies

1.9 Structure of the dissertation

Chapters	Descriptions
Introduction	In this chapter the background of the research study has been provided along with the significance of the research and the problems associated with it. This also includes the research aim and objectives.
Literature Review	The literature review chapter explores the existing literature in order to gather information on the subject of the study and provide an in depth analysis of the changes and various aspect of audit standards
Research Methodology	The research methodology chapter provides all the necessary details regarding the ways that the data has been collected and the kind of data that has been gathered for the purpose of the study.
Data collection and analysis	This chapter includes the data that has been collected for the research and also provides an

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	analysis in order to provide an insight on the ways the data contributes to the understanding of the topic.
Findings and Discussion	This chapter provides the results of the evaluation of the data and also justify the data that has been gathered with the help of existing literature in order to provide evidence in support of the findings.
Conclusion and Recommendation	The last chapter concludes the entire subject of the study and provides recommendations based on the ways that this study could have been better, or the gap in the study. It also discusses the ways that this could be used for future reference

Chapter 2: Literature review

2.1 Introduction

Literature review is the potential part of a research that identifies additional requirements with proper justification of a research and establishes familiarity and ensures professional standard by avoiding duplication in investigation topics (Maggio, Sewell and Artino, 2016). In this dissertation the literature review chapter is going to discuss an overview of the audit standard on financial performance including improvement, disadvantages and advantages. This chapter is going to ensure the impact of audit standards in measurement of financial performance in Nigeria through formulating practice and exercises of audit standards. Conceptual framework and literature gap also interpreted in this chapter after developing theoretical alignment to provide overview of existing findings.

2.2 Overview of the audit standards on financial performances

According to Gao and Zhang (2019), audit standards are used as a factor for mitigating possible misalignments of financial interest of auditors along with investors that restrict business exercise with professional judgement in terms of leading compliance mentality. Auditing standard contributes to the strategic purpose for preventing auditors and uncovering misstatements from financial accountability and statements that avoid consequences of professional failure to achieve goals. In the report of Knechel (2013), the audit process effectively mitigates information advantages that courses through auditors as a professional audit expert for motivating firm growth. However, audit standards are usually applicable for every auditing form that performs review of financial information and audits including assurance and service engagement. In addition, Standards on Auditing (SAs) refers to the objective of an independent auditor to perform audits with standard, audit engagement and in accordance with quality control of financial statements (Breger, Edmonds and Ortegren, 2019). Furthermore, auditing standards include documenting the auditor's responsibility to identify any fraud in financial statements through consideration of regulations and laws in an audit government and management regarding material planning performance evaluation on specific independent reports.

2.3 Analyse the role of audit standard for improving financial performances

Audit standards provide duration and establish requirements for applying auditors' engagement in conduction of Management assessment of audit to examine the effectiveness of internal control

over financial statements (PCAOB, 2007). As a result of accurate internal control through auditing standards over financial statements usually contribute reasonable assurance about reliability and accuracy of financial reporting. In case of material weakness such as lack of control on financial reporting companies may fail to obtain engagement performance to auditors that impact on operations activities such as economic condition, financial reporting practice regulations and loss with capital structure changes.



Figure 1: Key reporting members of Financial Audited Statement

(Source: PWC, 2017)

Auditing standards of financial statements provide data of the financial position of a particular company to make economic decisions and ensure independent assurance of company financial performance (PWC, 2017). Audit financial statement indicates involvement of company investors, oversight bodies, suppliers, customers, banks, and shareholders that enhance confidential degree in a business financial statement with external engagement as shown in figure 1 (PWC, 2017). According to Kewo and Mamuaya (2019), audit statements ultimately drive a positive impact on local government financial report quality that refers to good governance in financial participation, equity promotion, accountability, and transparency.

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According to Goicoechea, Gómez-Bezares and Ugarte (2021), the audit reports help the stakeholders to conduct audits for analysing the economic and financial decisions of the organization effectively. The regulators and the audit standards enhance the value of audits by providing real time data about an organization. The audit standard also improves the customers' expectations, information about goals and strand of the company and bridges the communication gap for future development. Moreover, it has been found that audit reports of the company have a symbolic value, however, it conveys little communicative value for both external and internal stakeholders. Furthermore, the sophistication and consistently growing complexity of the capital market and financial standard lead to change in the accounting policies of the country as well as the company. In terms of improving non-financial information like integrated report demand has changed the audit activity and audit reports of the organization. As per the report of BBC News (2022), the main aim of the audit is to protect the financial accounting scandals and the reasons for business collapses. Most of the government has created Audit, Reporting and Governance Authority (ARGA) for reforming large scale collapses and maintaining small business performances for improving financial performances and audit standards.

2.4 Advantage and Disadvantage of Audit Standards

Quality internal audit (IA) plays an important role while maintaining accountability, transparency and preserving different public properties. As per Bischof et al. (2021), audit standards are very important for monitoring the behaviours of the employees along with discrimination, representation, accountability under a real-world condition. With the help of audit standards, the organization provides financial performances along with potential investors, creditors and internal and external stakeholders engagement. According to Mickeler (2021), a financial audit statement would provide an additional value and identify the financial performance and also find out the extending scope through public interest. In order to maintain transparency, the financial audits strands address visibility around the process of audit. Furthermore, it also maintains sustainability with a range of stakeholder's engagement.

In addition, more forward-looking audit reports cover both financial and nonfinancial factors like climate change, work ethics and many others. Moreover, audit standards are only part of the financial reporting of an organization that acts as a continuous constructive and collaborative driver for further change in the future. As per DeFond and Zhang (2014), a higher quality of audit helps to create a greater assurance of the high financial quality report. The audit quality develops

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a conceptual framework and guidelines for the firm that encourage more investment and help to explore more opportunities for the future. With the help of auditing, an organization can make dynamic changes in the supply chain and customer demand in a systematic way. The financial performances and financial audit statements increase the confidence of customers and they give their opinion freely.

According to Shakhathreh, Alsmadi and Alkhataybeh (2020), the financial audits sometimes manipulate the quality of the information in the financial statement. The financial statement quality is difficult to define clearly and even more difficult to measure the financial structure specifically for an organization. Moreover, the audit standard does not identify the effectiveness of audit quality in order to maintain sustainability in financial performances. As stated by Olojede et al. (2020), the audit and financial statement quality sometimes does not mention the cultural values, small capital markets, and weak investors, that negatively affects the quality of financial reports of the organization. Audit fees depend on the audit size, risk and efforts of auditors; hence this type of fees may be discretionary and might impact the quality of the report. Moreover, unqualified audit opinions mislead the quality of financial performances and create the reality of violence.

2.5 Evaluate the impacts of audit standards in measuring financial performances in Nigeria

Accountability and Transparency both are important considering code of ethics for improving accounting and audit performances. According to Arowoshegbe, Uniamikogbo and Atu (2017), the standards on auditing are always a guide for improving technical proficiency. The financial performances have been measured with the help of the audit quality. Moreover, the management of deposit money banks in Nigeria focuses on increasing the number of foreign directors who have professional skills and knowledge and work experiences. With the help of this engagement Nigeria protects integrity, professional competence and reputation on the performance of audit quality. It has been observed that Nigeria faced an issue of fraud cases that created a major impact on the failure of corporations in a financial crisis. As stated by Ezejiofor (2018), the audit committee has a contribution in the internal risk assessment of the organization and provides information regarding the fraudulent activities. On the other hand, the audit committee also strengthened the internal audit position by providing guidelines of an independent and supportive environment. Furthermore, in Nigeria the auditor size and auditor independences have a major role in financial performances. However, the auditor independence is more effective as compared to auditor size while measuring financial performances. As per the report of Coleman (2022), increasing focus

on the editing of the non-financial information in different areas like environment, social and governance (ESG) and also include risks of climate and maintain sustainability in the audit standard. Moreover, the PWC, global investor survey informed that around 79% of the investors increase their investments on ESGs while developing a strategic decision-making for financial improvement.

According to Guthrie (2018), the set of international audit standards that are applied for all the organizations is a very important component for developing financial architecture in the world. The high-quality audit standard creates a common audit language that strengthens all the organizations of Nigeria along with facilitating trade and supporting economic growth. Moreover, the Monitoring Group (MG), an international group that is charged with overseeing the audit performance in the international market by maintaining a standard ethics process. In addition, two groups directly judge the quality of audit globally through legislation, one is the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA). As opined by Olojede et al. (2020), the audit standard has been analysed with the help of computer assisted audit techniques (CAATs) to minimise the risk of fraud. The banking sectors of Nigeria faced challenges in financial growth because of low maintenance of corporate governance and poor opportunistic behaviour. In Nigeria, CAMA group confirmed that most of the auditors do not have the responsibility to give credibility to the directors because of low management skills and knowledge to conduct the work efficiently. In order to measure the audit performances in Nigeria, it has been found that it has an expectation gap in audit activity that negatively impacts on the financial performances of the Nigerian companies globally.

2.6 Exercising and practice formats of audits standards in the premises of Nigeria

As stated by Eluyela and Ilogho (2016), the Nigerian Audit Standards have been developed, which has been adopted by the different companies of Nigeria, in order to check their financial statements and have been utilised in the other services also. It has been identified that the minimum standards of the audit have also suggested the organisations in terms of developing a minimum technical proficiency which has been useful for the companies to understand the standards which have been required for the audits. However, it has been identified that after the auditing, the main work of the auditor is to provide valuable findings which have been effective for the organization to make valuable changes in their financial statements to avoid the errors which have been found in the existing financial findings of the companies.

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As stated by Nzechukwu (2014), in 1990, the Audit Committees were formed in 1990 for which the Nigerian companies have been incorporated with the Allied Matters Act, in order to develop committees. As per the section 359, it has been identified that the Audit committees has been made by considering the shareholders and the directors of the same public company, the main duty of the audit committee is to look after the financial matters and also to provide valuable recommendations for the Annual General Meetings. Moreover, in order to maintain the practices of standards, there have been some internal audit practices. It has been identified that internal auditing has been considered to be an independent auditing practice, which has been useful, as it has observed the working methods which have been followed by the organisations. In addition, internal audit practices have also provided their concern towards the organisation positioning and structure, in order to evaluate the proficiency of the organization and how they have maintained it in terms of meeting all the criteria of the standards of the audit. It has also been significant in order to enhance the operations of the organisation to work in an effective manner in their future (Hanim Fadzil, Haron and Jantan, 2005). Hence, it can be observed that in Nigeria, these kinds of practices may also have occurred in order to maintain the audit standards.

As stated by Nwanyanwu (2017), Audit quality practices have provided all the procedures, which have been prepared by the auditors in order to communicate the relevant financial information in a smooth manner by the organisations. Moreover., it has been identified that the practices of the organisations have been differ from one organization to another. It has mainly varied on the basis of the size, nature of their activities and also the applicability of their legislations. In Nigeria, the companies have developed financial reports in an efficient manner, which has been significant in order to maintain the quality audit practices. It has become very much sufficient for the organisations in terms of enhancing the audit practices for the organisation in Nigeria.

2.7 Advantages aligned with Nigerian audit standards

It has been identified that in the Nigerian audit standards, has been found to be very much useful for the organisations as it has developed applicable standards and codes. With the help of it, the companies have been able to understand their financial statements and have been useful for maintaining the audit standards for the organisation. Moreover, the International Standards on Auditing has also developed a benchmark, which has been effective for the organisation to improve the quality of their work and also has potential in order to proper cost management of the works. In addition, the Nigerian audit standards have also prepared a framework for the institution which

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has reviewed the underpinning practices of the financing and auditing in Nigeria (World Bank, 2011). As stated by Okoye and Ofoegbu (2011), Nigerian audit standards have provided the opportunities to the organisations to reduce the risks which can come in future. The Nigerian Auditing Standards have provided valuable information regarding the effectiveness of the various advanced technologies in terms of tackling increasing competitive advantage of the market and to solve various complex problems. Moreover, Nigerian auditing standards have been useful in order to add value to the various organisations, which have been situated in Nigeria.

As stated by Ofoegbu and Odoemelam (2018), the Nigerian Auditing Standards have also maintained all the policies and the rules and regulations as per the International Financing Reporting Standards. However, it has been found to be significant and also provided valuable guidance to the companies regarding understanding their financial statements including the true financial and non-financial information. In addition, Nigerian Auditing Standards have provided the opportunities to the companies to improve the quality of their financial statements and to provide a global standard through which, all the companies have been able to grow in a unified manner by maintaining equity and quality of their financial aspects. With the help of the common goal, which has been provided by the Nigerian Auditing Standards have been found to be significant in terms of making the financial statements clear, which can be understood by the investors and other shareholders around the world. The main motive of developing the Nigerian Auditing Standards is to make the financial statements relevant, applicable and easily understandable by all the people around the world. As reported by Otusanya and Lauwo (2010), Nigerian Auditing Standards have been useful in terms of reducing the banking crisis which has been faced by the banking sectors in Nigeria. In addition, Nigerian banking standards have developed equal standards for all the business affairs in order to develop a proper financial plan which can be applied utilised in a global manner. Hence, in that manner, it can be understood that Nigerian audit standards have been useful for the organisations in order to increase the values of the organisation by developing understandable financial plans which are going to be relevant and applicable towards the entire world. Nigerian Auditing Standards have provided equal opportunities to all the organisations by developing a standards structure and common rule, which can be utilised by the organisations to provide a significant financial statement for the organisation.

2.8 Challenges associated with the audit standards of Nigeria

As it has been identified by Amaechi and Chinedu (2017), the internal auditors across different parts of Nigeria play an important role in the course of accountability, ensuring, probity, as well as governance and supervision of public sector entities. However, the internal auditors also have to face numerous challenges in terms of performing operations of auditing, which includes *lack of independence, insufficiency of skilled staff, inadequate finance resources and funding, as well as lack of facilities and infrastructures to perform the audit operations effectively*. as it has been reported by Ayitogo (2018), as per the statement of auditor general of Nigeria, Anthony Ayine, it has been observed that tat one of the most critical challenges that Nigeria has to face in performing its operational activities of audit standards is the insufficiency as well as the lack of manpower. That further results in hindering the overall supervision over the operations of the audit standards within the country. As stated by Salawu (2020), one of the critical challenges that has been identified within the operational activities of the Nigerian audit standard is that the auditors are provided with a very less independence within their job roles. That results in the process of restricting them in expressing the actual information regarding the stability of any company or organisation by verifying their reports. In addition, the auditors cannot express the right information regarding the company in a detailed manner due to the restrictions as well as regulations with which they are bonded or limited. It has been also recorded that sometimes, the issue of inadequacy of freedom and independence among the auditors of Nigeria also resulted in the occurrence of conflicts within the workplace, as they do not have the right to express the clear scenario of the audit in the form of a report. As per the view of Iyoha and Oyerinde (2010), it has been identified that the audit standard of Nigeria faces issues such as unavailability of appropriate technological advancement of infrastructure due to insufficiency of monetary funds. In addition, its further results in the process of affecting the overall quality of the audit operations, because implementation of advanced technologies could help the audit department better in the course of performing their operational activities. All these mentioned issues are considered as the main challenges that are associated with the audit standard of Nigeria and also needs to be mitigated.

2.9 Conceptual Framework

The conceptual framework of this study will give detailed information on audit standards.

2.9.1 Concept of Audit Standards

Normally the concept of standards is a method or process to meet a need. More specifically they are tools of control usually used by humans in the accomplishment of his objectives and aims. The term "standards" initially was used for a symbol whose major use was to orientate and bring together dispersed troops in a war apparently a controlling purpose. The Oxford Dictionary of Accounting defines auditing standards as the basic concepts and important processes with which auditors are required to follow the code of conduct of any audit exercise of the statements of accounts. This is the principal concept that guide the auditors professional duties and that need to be obeyed at all time when an audit is performed. Auditing standards are an amount of specific regulations agreed upon by the audit practice as rules to gauge dealings conditions and situations which have impact on financial outcomes and information relating to finances provided to receiving individual (Igbinosun, 2011). The standard set should be aligned to the appropriate aims of the audit exercise which should be appropriate and applicable in the society. Thus these standards should fulfill the four measure of suitability, acceptability, relevance and consistency. The APC Auditing Practices Committee provided a set of auditing principles between 1980 and 1991. The standards given by its replacement organization the Auditing Practices Board (APB) are referred to as Statement of Auditing Standards (SAS). The Auditing Practices Board (APB) also provided notes for practice to offer help to the auditor in using the standards of auditing of universal usage to specific situations and business areas and statements created for dispatch whenever help is required on fresh or upcoming problems notes of practice and statements are not rigid. They serve as a notice of present pleasant conducts ISA International Standards of Auditing bulletins of auditing principles internal bulletin on auditing are principles that are set by diverse boards.

Standards of auditing offers support on the lowest point of concern needed for carrying out an audit exercise. They can as well speak on if the professional principles are acceptable eventually the law court decide if this principle has been fulfilled in a specific exercise (Gill & Cossarat, 2008). Schulte (2007) asserts that when the behavior of an auditor is in doubt in the proceedings of a court case it is not the jurisdiction of the profession of auditing in itself to decide what the lawful obligation of auditors or decide what the right ability and concern is required/desirable to be practiced in as particular situation however what the rest do or did not do that which is normally

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done is essential to the enquiry of if there had been any break of obligation. The law court might determine that the principles are lacking. To encounter the dynamic business environment situations and anticipations auditors can cross check and modernize their processes.

Financial Statements are expected generally to give detailed evidence to enable present and prospective depositors, creditors and other users to assess the profitability, liquidity, financial flexibility and risk of an enterprise and then be in a better position to take investment decisions.

According to Mathews and Perera (1996), principles of accounting are guidelines that create prerequisite for identifying gauging and revealing dealings and other proceedings in financial statements of universal use. Information to be presented in the financial report doesn't and shouldn't rely on individual preparer's choice or discretion. The function of accounting standards is to ensure that information presented to shareholders and investors are such that'll enable them evaluate investment opportunities offered by different entities and to allocate their resources to the most efficient ones. To this, Glautier & Underdown (1982) stated that, the process of making valued investment decisions results in optimal distribution of scarce resources within the economy, and should maximize their potential benefit to society. They emphasized that, the quality of the investment decision-making process relies to a large extent upon the quality and adequacy of financial information available to investor. Herein lies the social relevance of the information

The Board is committed to development of high quality statement of accounting standards (SAS) that' are consistent with international accounting practices as inscribed in its mission statement. The standards comprise a very vital reference material and guide in preparation of financial statements in Nigeria. They've increasingly become more important now that high quality financial reporting is persistently called for to avoid corporate failures, attract foreign investment for the development of Nigerian economy and for global economic activities.

To avoid financial reporting scandals in Nigeria, high quality standards of financial reporting are required. A high quality financial report can only be achieved by the application of high quality accounting standards such as the one issued by the Nigerian Accounting Standards Board. The panel has made a laudable effort having issued twenty (20) standards and two exposure drafts since its inception on September 9, 1982 (Note: SAS 19 replaces SAS 12 on deferred taxation reducing the number to 20 instead of 21).

Standards of auditing are very essential to the accounting statements users and statistics such as commercial banks, hosting country, stakeholders, regulatory bodies etc. The standards clarify the

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auditor's roles and impartiality from the perspective of the administrators and stakeholders. Multinational standards have been created to synchronize auditing principles between various countries worldwide and to be used where there are no ethnic standards.

International Standards on Auditing (ISA) in Nigeria today are compulsory for the firms that are listed in the Nigeria Stock Exchange (NSE) where Nigerian Auditing Standards isn't established. Though based on the peculiar nature of the business environment in Nigeria nine Nigerian Standards on Auditing (NSA) were given in July 2006. They carry importance more than the ISAs in the Nigeria. The main aim of auditing statement of accounts is to help the auditors to state his perspective on if the statement of accounts are organized in every fundamental aspect in line with a recognized framework of financial reporting. The perspective of the auditor is meant to advance the integrity of the statements of account. To accomplish these aims there are necessities that should be fulfilled in line with the ISAs and NSAs.

International Auditing Practice Committee perceives that the challenge of such principles and assertions improve the level of consistency of auditing practices and linked services worldwide (IFAC, 1997). It is nevertheless explained that the advice's doesn't over rule legal laws. However, the International Auditing Guidelines (IAG) are used mainly to impartial financial audits it's seen that additionally they have use as proper to other connected acts of the auditor International Auditing Guidelines are not spontaneously required on the auditors in a specific nation Though they offer a commanding perspective of what is internationally accepted as Generally Accepted Auditing Practices (GAAP) and therefore acts the foundation for the advancement of auditing judgements by expert organizations in different countries.

Bhatia and Begardia (1992) debate that in certain countries the International Auditing Guidelines have been implemented with no adjustments in many countries they have been implemented with such changes as are thought proper in the framework of the local circumstances. The International Standards of Auditing recognizes that discrepancy in the financial reporting structures between countries produce relative financial knowledge that is differently exhibited in each structure (Padar & Hoppe, 1998).

2.9.2 Statement of Auditing Standards and Guidelines

The Nigerian Auditing Standards Committee defines auditing standards as those statements issued by Auditing Standards Committee and have been approved for issue by the Institute of Chartered Accountants of Nigeria Council. The standards of auditing establish the fundamental standards and concepts that every member of the Institute are required to follow when executing an audit. The committee was inaugurated on Monday the 18th of July 1989. The primary aim of setting up this committee was to promote the quality of services being rendered by the members. Each member of the Institute is expected or needed to obey with the principles given by the committee. Where no standards exist yet, members are expected or required to comply with the International Federation of Accountants issued guidelines called the International Auditing Standards (Nwoko 1990).

Standards of auditing recommend the basic principle, which every member is required to be guided by in the performance of an audit. They're meant to ensure that the auditor exercises fully his professional skill and competence to ensure that a thorough audit work is done or prepared.

In Nigeria, auditing standards are to be issued by the Institute of Chartered Accountants of Nigeria periodically.

The general accepted auditing standards focus on three areas; General (The auditors personal qualification), Fieldwork (performance of the audit), Audit report (content of an auditor's report)

2.9.3 General Standards

Due professional care is to be applied in the inspection performance and of the report of the audit. In every aspect in relation to the task, an impartiality of the mind and the intellectual behavior is to be established consistently by the auditor(s). The inspection is to be carried out by an individual having proper practical teaching and skill as an auditor.

2.9.4 Fieldwork Standards

Adequate, capable substantial evidence is to be gathered via examinations, surveillance, questions and validation to be able to provide a rational foundation for a perspective, relating to the statements of accounts in preparation. The activity is to be sufficiently prearranged and adequately

managed. There should be appropriate research and examination of the present internal administration as a foundation for dependability and for the decision of the consequential level of the exercises, to which auditing processes are to be limited

2.9.5 Auditing Guidelines

Auditing guidelines provide measures based on which the auditing standards are used. They also give guidelines on usage of the standards of auditing to particular matters in the statement of accounts of the enterprise and describe techniques currently being used in auditing.

Audit standards will be published to provide guidelines on audit issue or problem in relation to specific moneymaking or lawful situations to particular businesses. Guidelines of auditing aren't intended to be definite and doesn't form part of the audit standards. The auditing guidelines that support the operational standards are: Planning, controlling and recording: The auditor must adequately strategy, manage and note down his word. Accounting system, Audit evidence, internal control, Review of financial statement and Reporting. From the above, we can infer that the audit standards and guidelines prescribe the best practice in auditing but in no way inhibits the auditor from exercising his judgment in particular situations.

2.10 Literature Gap

On the basis of the above discussion, it has been found that the previous researchers or scholars have effectively discussed the aspects of impact of audit standards over financial performance. However, it has found that information specific to Nigeria was limitedly explored and have some gaps, like the information related to exercising and practising of audit standard formats were very hard to find. Therefore, it can be considered as a gap that has been mitigated through this study by discussing the aspect in a detailed manner through relevance to existing literature. The relevance of existing literature has helped the research in building up new dimensions in terms of mitigating the gap identified.

2.11 Summary

On the basis of the above discussion, it has been observed that Nigerian auditing standards have been very much useful for the organization to develop financial statements for the organisation which can be globally acceptable. In addition, the companies of Nigeria have been indulged into

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various practices, moreover they have adopted the practices as per the size and their activities. However, the Nigerian audit standards have faced several issues such as the lack of independence, insufficiency of skilled staff and others. However, in order to mitigate the issues several strategies have been adopted such as the transformation as a unified body, recruitment of qualified staff and others.

Chapter 3: Research Methodology

3.1 Introduction

Research methodology is a way by which a research study is conducted successfully. Methodology is the pathway through which the research work formulates research problems and objectives and demonstrates the outcomes from the data obtained at the time of research study (Sileyew, 2019). In this chapter the research approach, strategy, research design, the study area, secondary data sources are structured. It will include the justification behind the choosing data collection methodology as a *secondary qualitative method, interpretivism research philosophy, and inductive approach*. The main purpose of this section is to satisfy the research aims and objectives through this appropriate choice of methodological approaches (*Refer to figure 2*)

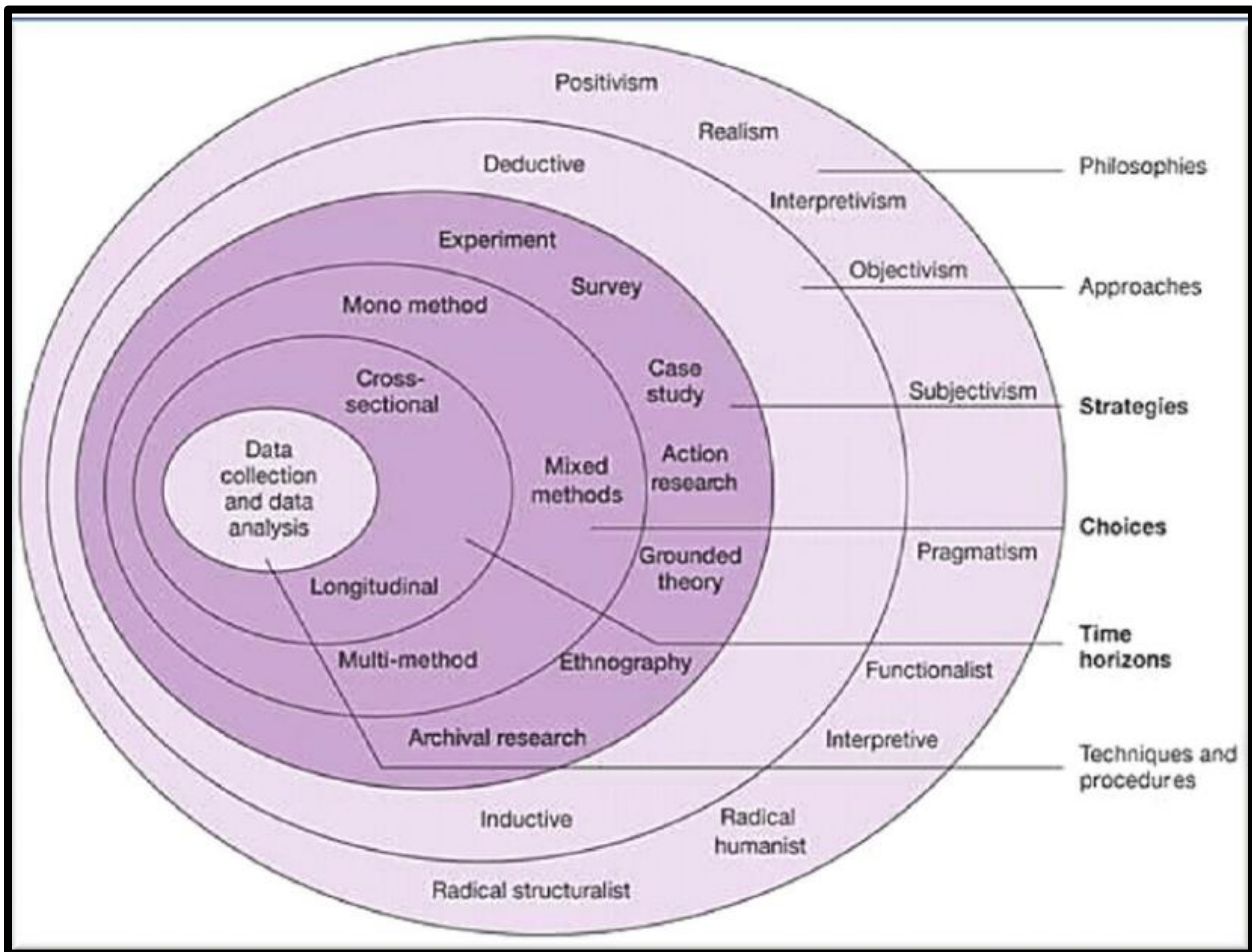


Figure 2: Research onion

(Source: Saunders, Lewis and Thornhill, 2016)

3.2 Research philosophy

The collected data of this research study was evaluated by the use of *interpretivism* philosophy because this study used secondary qualitative and quantitative during the study in order to gather subjective overview. This philosophy gave an overall interpretation of all the collected information in consideration to the observation of the social phenomenon aligned with the subjective area. According to the study of Al (2013), interpretivism research philosophy shows real scientific practices that emerged with different social and cultural practices and also help to understand the context through logic. This philosophy has been used to assess the prevalent financial auditing standards in Nigeria and to analyse the applicability of financial auditing on the diverse situation. Interpretivism philosophy helps in identifying multiple realities and it is more flexible to understand the context (Ryan, 2018). It also helped to evaluate the impacts of auditing standards on the financial performance of Nigerian companies based on the configuration of generalizable outcomes.

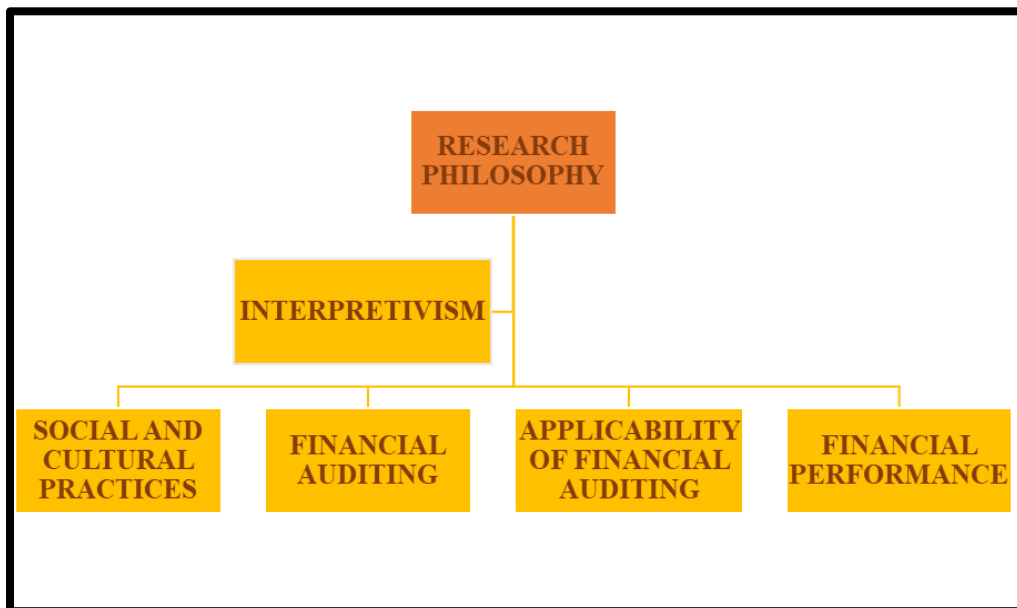


Figure 3: Research philosophy

3.3 Research approach

In this research study the *inductive approach* was used to analyse the nature of data collection. This approach has been used because this study was completed in terms of determining new

ideologies on the subjective areas. The inductive approach is used to describe the raw textual data in brief and help to develop a clear link between research objectives and findings of the study (Thomas, 2006). In this study the inductive research approach was used to make a structural synthesis that was applied to collect raw data. The inductive approach provided a systematic set of the procedures for analysing the impacts of audit standards to improve the financial performances of companies in Nigeria. With the help of this approach the profitability and audit standards, were analysed to develop reliable and valid findings of the study. Inductive philosophy was used to identify the issues that the financial industry of Nigeria faced in terms of managing a standard auditing practice.

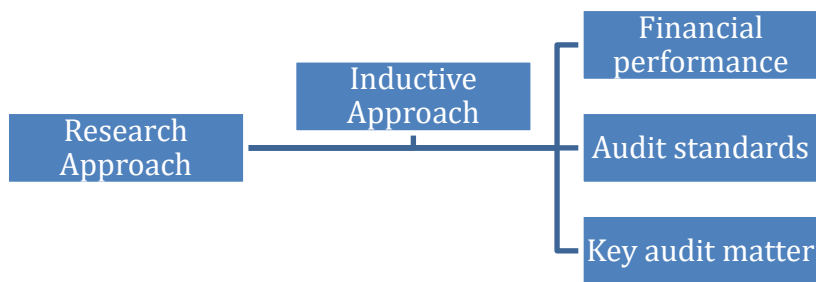


Figure 4: Research approach

3.4 Research strategy

Analytical strategy of content based on secondary qualitative data was used to generate information while completing the research study. This study was mainly focused on the importance and impacts of financial auditing in order to improve financial performances in Nigeria. As per the study of Bengtsson (2016), the content analytical strategy helps to organize the collected data and draw a realistic conclusion of the data analysis. The analytical strategy of content was chosen to analyse the collected information through decontextualization and recontextualization of the previous information. Therefore, in this research study, the content analytical strategy was used to get detailed information about the importance of financial auditing and evaluate the impacts of it in

terms of increasing value of the organization of Nigeria. This strategy helps to analyse the importance of audit standards in terms of reducing financial risk in an organization.

Archival research strategy, this includes the use of already existing data information such as research articles, case studies, journals, newspapers and other materials (Ventresca and Mohr 2017).

Furthermore, this current research study has merged some other forms of research strategies like *application of quarterly factual statements* that have been published in the stock exchange market in order to gauge performance of companies to determine if a relationship exist between audit standards and financial performance. Also, the *annually published financial report* will be consulted in order to assess the audit standards that were disclosed and how it affected the profitability in that year.



Figure 5: Research strategy of contents

3.5 Research choice

Mixed Method Qualitative Research Choice: According to Boru (2018), the application of a mixed research choice method involves the analysis of quantitative and also qualitative data. For the purpose of this research, a mixed research choice has been chosen because it enables the study to give an answer to the questions of the research. Additionally, this mixed choice of research provides a major form of contribution to analyse the data in terms of how audit standards impact financial performance of companies in Nigeria. Azorin(2016), the mixed research choice surpasses

and sharpens the aspects of methodology. It also improves the severity of the characteristics of the concept. According to Malina, Nørreklit and Selto (2011), mixed research methods can be applied to restructure the research approach with qualitative data sets and quantitative data, as it supports in rephrasing the information provided.

3.6 Research design

Exploratory research design was framed to interpret the collected secondary qualitative data and also flourished new knowledge about the chosen topic. The exploratory research design is evolving and plays a vital role at the time of developing a significant inquiry. Most of the previous journals generate valuable information regarding the impact of audit standards in the financial sectors. With the help of this design all the information was analysed and evaluated properly to develop better outcomes of the research work. Exploratory research design helped to unravel the consequential findings of the previous information that were collected through different authentic organizational sites and government sites of Nigeria. On the basis of exploratory design all the collected data was analysed and concluded with a significant narrative approach. This design develops an inter-subjectivity overview of the collected information and maintains transparency of the data with correct justification. Therefore, it can be stated that the use of exploration was very much justified in this study.

3.7 Data analysis technique

In this research study, the data analysis has been done in respect of different business sizes both large and small companies in order to determine the financial performance across a large data set. Furthermore, the analysis is conducted to understand the role of audit standards in influencing financial performance. Also, this analysis is based on the Annually released financial reports and quarterly reports of Nigerian stock markets that have been analysed critically over a time period. Also the use of content analysis will be applied. The content analysis gave the opportunity to analyse the existing context with an open mind in terms of gathering meaningful information related to the subject areas (Erlingsson and Brysiewicz, 2017). In order to analyse data, all the relevant journals were selected to understand the context related to the research questions. After that all the units and selected areas were defined to meet the research aims and objectives. Furthermore, develop a specific set of rules to design the text coding and then all the text was

coded as per the rules. Lastly, all the coded text has been analysed to interpret findings of the research study and draw a conclusion in order to understand the data analysis.



Figure 6: Process of Coding data

3.8 Data collection method, data collection tool and technique and sampling technique

3.8.1 Data collection method

It is crucial to choose a data gathering strategy that meets the needs of the study because doing so advances the relevance, purpose, and scope of the research (Paradis et al. 2016). The two main categories of data collecting techniques are primary data collection techniques and secondary data collection techniques. The key methods for gathering data are quantitative surveys and qualitative interviews, both of which significantly contribute to the creation of the study (Ajayi 2017). Additionally, the secondary data collection techniques make use of the material already present in previously completed research papers, yearly reports, articles, journals, and other artifact sources (Ajayi 2017).

According to Ellram and Tate (2016), secondary data gathering techniques are more practical in nature due to their time and money-saving qualities. However, secondary data collection methods lack precision in generating a research work and may not always serve the goal of the study taking into account non-specific data information, compared to the primary data collection approach (Ellram and Tate 2016). In order to evaluate the performance of Nigerian companies over time and the audit standards in the financial report, the study used the secondary data collecting approach, using annually released financial reports and quarterly factual statements from the Nigerian Stock

Exchange Market, Nigerian Government sites named *Institute of Chartered Accountants of Nigeria-Nigerian Standards on Auditing (ICAN- NSAs)*, *Financial Report Council of Nigeria (FRC)*. As well as *International Federation of Accountants Nigeria (IFAC)* and *Office of the Auditor General for the Federation Nigeria (OAuGF)* followed to ensure authentic evaluation of financial performance of Nigeria.

Measurement of financial performance and interpretation of the impact of the audit standards used on the financial performance have both benefited from the application of secondary information through the quarterly factual statements. Instead of gathering primary data information, it was more practical to collect data through secondary sources of information given the ongoing pandemic crisis. The financial performance was measured analytically using the obtained conclusions from the annual published financial report and quarterly factual statements that were relevant to the financial performance. Such information gathering and identification have aided in the development of trustworthy findings, even the causal connection between auditing factors and Nigerian company performance has been evaluated and observed better with the secondary factual and interpretive data information.

3.8.2 Data collection tool and technique

The term "data collection tools and procedures" refers to practical methods of gathering data, such as focused group interviews, surveys, and other strategies for getting initial data (Salkind 2010). Document study, observation of Journals, newspaper articles, research papers, yearly reports, websites, and other well-known methods to gather the readily available secondary data information pertinent to the study are among the data collection approaches used to gain secondary data information (Allen 2017). While the main serving instruments for obtaining secondary data information are online apps, public documents, journals, and statistical records. Regarding how the research was carried out on "Audit standards' effects on Nigerian companies' financial results." Annual financial reports, quarterly published factual statements, data on stock market indices, and market capitalization of listed companies have all been useful tools and techniques for gathering the necessary data to understand how the performance of Nigerian companies is affected by audit standards. When producing trustworthy conclusions and creating research content with specific information, the use of such data collection instruments and methodologies has produced superior

quality data information. The approaches and technologies used for data collection and audit standard measurement have helped us better understand how Nigerian companies are performing.

3.8.3 Sampling techniques

According to Berndt (2020), sampling methods affect whether subjects are appropriate and how important they are to the contribution of the study environment. The outcome of the data information is determined by the use of well-planned sampling strategies in relation to the significance of the study and practicality. Probability sampling techniques and non-probability sampling techniques are the two main kinds of sampling techniques. According to Datta (2018), probability sampling techniques avoid biases since they cover a wide range of people and give them the chance to participate in real-world, diverse, and comprehensive research versions of the data and knowledge are acquired.

However, nonprobability sampling procedures, as the name implies, reduce the likelihood of likely outcomes because the respondents are chosen depending on the objectives of the research (Showkat and Parveen 2017). Nonprobability sampling approaches, on the other hand, do not incorporate a generalized population in order to maintain the specificity of information, in contrast to probability sampling techniques (Showkat and Parveen 2017).

In order to assess the stock market performances and other contributing elements, the study used nonprobability sampling techniques through the use of judgemental sampling techniques.

According to Frey (2018), it is advantageous to choose samples or participants based on the precise goal of the research and intuition.

Utilizing this strategy, twenty companies were chosen from the different sectors in Nigeria.

Taking into account the audit standard's further interpretation and the ease of access to financial statements. In order to comprehend the impact of audit standards on financial performance, the annual financial report and quarterly statements from the Nigerian Stock Exchange Market have also been acquired.

3.9 Time horizon

In this study the *cross-sectional time horizon* process was used to understand the data collection methodology. The cross-sectional time horizon has been used to investigate the measures of the

research outcomes and explain the collected information in detail at the same time (Taris, Kessler and Kelloway, 2021). With the help of the cross-sectional time horizon all the data was collected at a specific point in time and it reduced time consumption while gathering information from five years old articles based on authentic sites. Thus, using this time horizon all the aims and objectives of the research study were met in a very specific way. Furthermore, the time limitation created boundaries while collecting information from websites of the government sites and other authentic databases. However, this time horizon helped to maintain the provided time in a very effective way and generate more productive outcomes of this study and satisfied the work positively. Hence, it can be stated that the cross-sectional time horizon played an important role in analysing all the collected information within a given limitation of time.

3.10 Reliability and validity of the research

It has been found that the qualitative data contributes as importantly as the quantitative data in particular regarding socio-cultural aspects, policy setting, generation of codes in business. Main aim of the qualitative research methodology is to find out the answer of the research question with a particular perspective that can be refuted from an existing study. According to Golafshani (2003), a high degree of stability maintains a high degree of reliability that defines that most of the outcomes of the study are repeatable. The reliability and validity are the two important factors that relate the concepts of the good quality and explain the purpose of the qualitative study (Lub, 2015). Moreover, these two factors help in understanding all the collected information of this research study. The qualitative data was used in this study that justified the reliability while maintaining consistency of all the measures used at the time of collecting information. The validity has been justified at the time of maintaining the accuracy of the measures that are used in this study.

3.11 Ethical consideration

Ethical consideration plays an important role in the research work, it is related to the subject area and research methodology. The ethical consideration of conducting the content analysis of different government and other authentic databases was inclined to maintain authenticity of the information with tampering. However, the data of existing sites are used and cited in the sites that influence University policies and practices. Unlike the primary information the content analysis does not analyse personal and confidential information of an individual (Tripathy, 2013). Information of different authentic sites is publicly accessible, that means anyone can use that information as per their requirement. In this qualitative research study, the data gathered from

existing sources were acknowledged in the form of reference lists. Therefore, it can be stated that all the ethical consideration was maintained throughout the research and work effortlessly to give the best outcomes of the study.

3.12 Limitation of the chosen methodology

This research study was completed only on the basis of secondary qualitative information and the data was analysed from the existing databases of different authentic government and business sites. Due to the time limitation primary data was not collected and only involved a secondary qualitative content analysis technique. The study has been completed with the help of data interpretation and data has been classified on the basis of coding and identified findings of the existing study. However, the chosen methodology justified the research outcomes and met the objectives of the research successfully.

3.13 Summary

From the above analysis it can be stated that this research study was completed on the basis of secondary qualitative research methodology and uses analytic techniques to interpret the collected information. Data was collected from different authentic government websites of Nigeria and other organizational authentic sites. All the information was collected to know about the importance of the standard audit and the impacts of it in the improvement of financial performances. It has been observed that because of the time limitation the cross-sectional time horizon was used and also maintained ethical consideration while collecting information from different sites. It has been found that there are many limitations in this methodology but all the boundaries were overcome successfully and generate a better outcome of the study.

Chapter 4: Findings and Analysis

4.1 Introduction

In this chapter of findings and analysis the discussion is based on the found information and data which are collected through the secondary qualitative data collection method. The findings are discussed using the thematic analysis process which helped to understand the aspects of the objectives properly. In the thematic analysis the data are based on the different information which are collected through the secondary data collection system. This study will critically analyse financial statement of Listed companies across different sectors in the Nigerian Stock Market to evaluate how the application of Audit standards and Key Audit Matters (KAM) has an impact on Financial Performance of Companies in Nigeria. Three companies were selected from the sample size for extensive analysis because these three companies represent the industry leaders in the most significant industries in Nigeria from the sample set.

4.2. The impact of Nigerian audit standards on financial performance

The Institute of Chartered Accountants of Nigeria (ICAN) is one of the members of the International Federation of Accountants (IFAC) which focuses on providing high quality on the basis of the interests of the public (ICAN, 2013). In this process of maintaining the proper order and process the ICAN which is a regulator focuses on the audit standards to understand and assess the financial performance (ICAN, 2013). As per the report of ICAN (2013), the Nigerian Standards on Auditing (NSA) manages the overall responsibilities of the independent auditors on the time of audit of the financial statement on the basis of the rules of NSA. The credibility of the financial statement is increased through a proper audit system. The objectives, requirements and applications are helpful for the audit system to gather the reasonable assurance which are necessary for the betterment of the financial performance. According to ICAN (2013), the auditor will express their opinions on the basis of the financial reporting framework which follows the Companies and Allied Matters Act (CAMA), 2004.

4.3 Assessment of Key Audit Matters on Financial Performance

According to International Standard of Auditing (ISA) 701, key audit matters (KAM) section in a company's financial statements should determine and disclose the most important issues in the audit of financial statements according to the auditor's professional judgement. Annette-Kohler,

Nicole S., and Jochen C. Thesis (2014), suggests that the economic situation of a company will be much better when KAM suggests minimal changes that will lead to a goodwill impairment (KAM negative) than when KAM suggests significant changes (KAM positive).

An analysis of financial statements of listed companies as shown below were used to assess the use KAM and its effect on the financial performance of companies.

4.3.1 Nestle

Nestle Nigeria PLC is one of the largest food manufacturing companies in Africa. Food product manufacture, marketing, and distribution are all part of its business operations. The company has divided its offerings into categories including Baby Foods, Coffee, Culinary, Dairy, Drinks, and Recipes. It creates and sells its goods under the Cerelac, Nescafe, Nido, Maggi, Milo, and other brands. Food and beverage are reportable segments for the company. The food industry produced and sold products like Maggi, Cerelac, SMA, Nan, Lactogen, and Golden Morn. The manufacturing and distribution of Milo, Choco Milo, Nido, Nescafe, Milo ready-to-drink, and Nestle Pure Life are included in the drinks section. Most of the company's income is made in the food sector. Nigeria as a country forms a major part of its income generation.

4.3.1.1 Key Audit Matter Identified - Provision for site restoration

As of 31 December 2020, The Company had regions that have been mined for raw materials but have not yet undergone rehabilitation, the company has a long-term reserve of £5.04 billion (2019: £1.95 billion) for the expected cost of site restoration and rehabilitation. The provision is calculated using current cost estimates discounted to the financial reporting date and projected to the mine's conclusion. The restoration and rehabilitation liabilities are re-evaluated and re-measured at each reporting date to reflect changes in cost projections based on adjustments to important inputs such as inflation rates, discount rates, and mineable reserves.

Due to the significant judgment estimates required in estimating key inputs and the inherent estimation uncertainty based on the lifespan of the mines, the provision for site restoration and rehabilitation was identified as a key audit matter in both the consolidated and separate financial statements.

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The long-term provision estimates are a cost estimate and in comparison, to the previous year amount, 5.04 billion seems to be overstated. This was seen as a significant matter and was therefore disclosed in the financial statement as KAM.

FIGURE 7: Provisions made in 2020 for Nestle Nigeria Plc

28. Provisions

	Group		Company	
	31/12/20 N'million	31/12/19 N'million	31/12/20 N'million	31/12/19 N'million
Site restoration cost	6,913	2,869	5,049	1,950
	6,913	2,869	5,049	1,950

	Group					
	2020			2019		
	Restoration N'million	Others N'million	Total N'million	Restoration N'million	Others N'million	Total N'million
Balance at beginning of the year	2,869	815	3,684	2,150	603	2,753
Effect of foreign exchange differences	274	43	317	(41)	(77)	(118)
Provisions made during the year	2,793	278	3,071	417	289	706
Transfer from short term	717	—	717	—	—	—
Unwinding of discount	260	—	260	343	—	343
Balance at the end of the year	6,913	1,136	8,049	2,869	815	3,684

Source (Nestle annual report 2020)

Notes to the account 2020

Looking at the above provision from the company perspective the site restoration cost grew from N1, 950,000 to N5, 049,000, which is 158% growth over the last period, this seems to be a very material growth in cost. Also, from the group perspective the provision made in 2019 was N417, 000 and in 2020, it grew to N2, 793,000, this is at approximately a 570% growth rate. The Key audit matter addressed this outrageous growth and identified it as a risk factor.

It is safe to assume that this risk factor was addressed in the following year (2021) because as highlighted below, there was a decrease in provisions made in 2021 and this also a form of offset on the provision made in the previous year 2020.

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FIGURE 8: Provisions made in 2021 for Nestle Nigeria Plc

28 Provisions

	Group					
	31/12/2021			31/12/2020		
	Site Restoration N'million	Others* N'million	Total N'million	Site Restoration N'million	Others N'million	Total N'million
Balance at beginning of the year	6,913	1,136	8,049	2,869	815	3,684
Effect of foreign exchange differences	(914)	412	(502)	274	43	317
Provisions made during the year	(9)	275	266	2,793	278	3,071
Transfer from short term	-	-	-	717	-	717
Unwinding of discount	615	-	615	260	-	260
Balance at the end of the year	6,605	1,823	8,428	6,913	1,136	8,049

	Company					
	31/12/2021			31/12/2020		
	Site Restoration N'million	Others N'million	Total N'million	Site Restoration N'million	Others N'million	Total N'million
Balance at beginning of the year	5,049	-	5,049	1,950	-	1,950
Provisions made during the year	(52)	-	(52)	2,865	-	2,865
Unwinding of discount	576	-	576	234	-	234
Balance at the end of the year	5,573	-	5,573	5,049	-	5,049

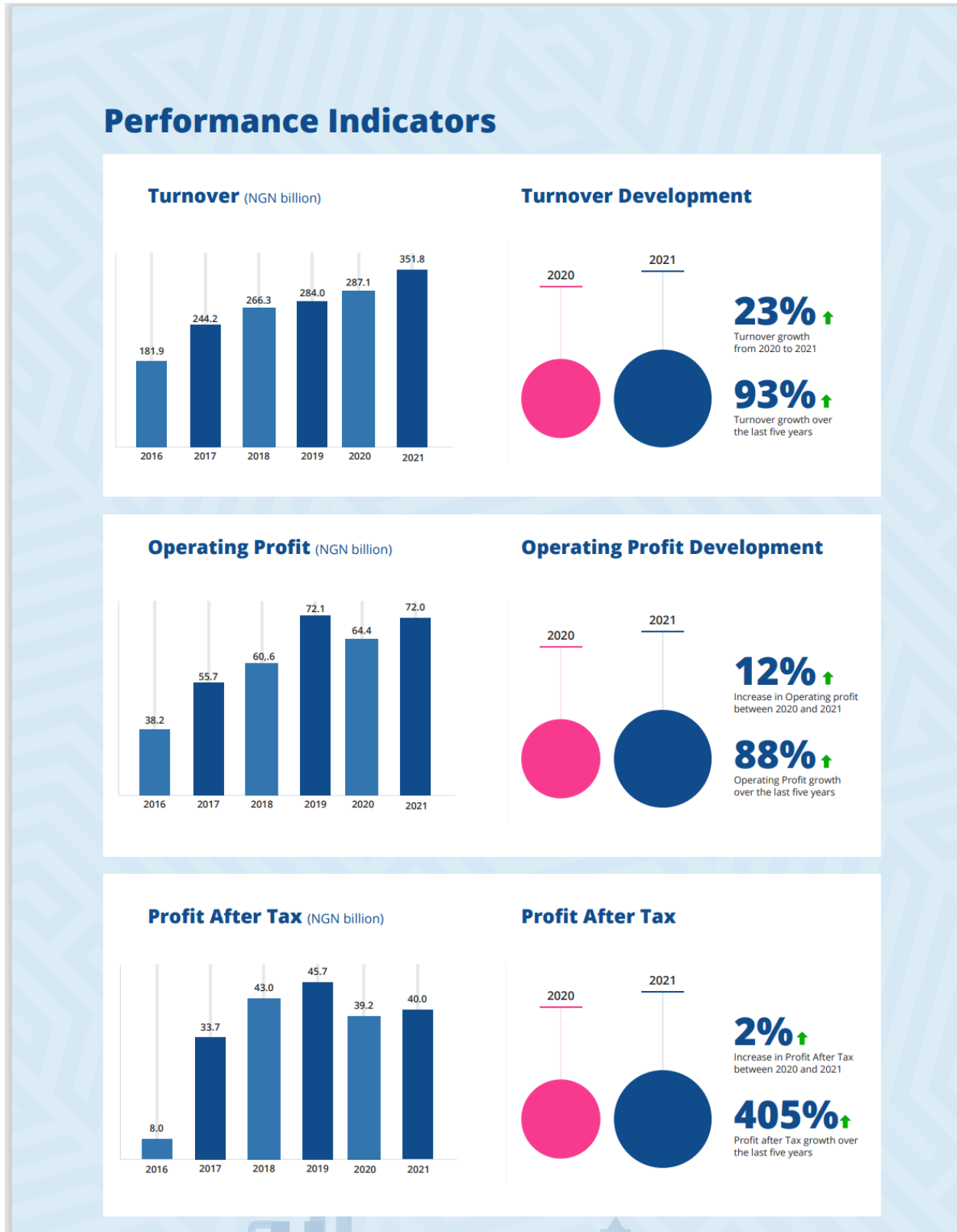
Source (Nestle annual report 2021)

Notes to the account 2021

From the financial report of 2021, it was observed that the provision for the year dropped from 2,865,000 which resulted in the 5,049,000 balance the auditor flagged to (-52,000,000); this helped to reduce the balance from what it would have been. Even though the balance at the end increased which could not be avoided, the provision made for the year helped the balance from increasing more than that. Any more increase in that would affect the profitability of the firm. Which would have reduced the financial performance of the firm.

From the highlights it can be established that the importance of Key Audit Matters runs deep beyond addressing material misstatement to ensuring operational risks are tackled at the very point to notice. Addressing these matters will no doubt leave the company in a better financial position; thereby enhancing the overall performance of the company. This shows how important audit standards can be to improving the financial performance of firms.

FIGURE 9: Performance Indicators for Nestle Nigeria Plc



Source (Nestle annual report 2021)

Figure 9, shows performance indicators for Nestle Nigeria Plc. This illustrates that the disclosure of KAM in the financial statements provides clarity on how key matters identified were addressed in the financial statements; this in turn provides transparency and increases investor’s confidence. Thus increasing the level of profitability for Nestle Nigeria Plc as shown in the above performance indicators.

4.3.2 Honey well flour Mills

Honeywell Flour Mills PLC is a Nigeria-based company. It produces noodles, pasta, whole wheat meal, flour, semolina, and other items made from wheat. The corporation divides its operations into three geographic regions: Ikeja - where noodles are produced; Sagamu - where pasta is produced; and Apapa - where flour, semolina, wheat meal, brown flour, and Baker's Delight flour are produced. The Apapa division generates more revenue for the business. The business provides its services in the Nigerian region.

4.3.2.1 Key audit matter identified- Borrowings

On March 31, 2020, the company disclosed in its financial statement its entire bank loan facility as N60.48 billion. Because this is a significant debt profile on the company’s financial report, it was flagged as a key audit matter.

FIGURE 10: Borrowings for Honeywell Nigeria

11. Borrowings

	2021 N'000	2020 N'000
Held at amortised cost		
secure		
Bank loan *	60,484,793	55,336,988
Overdraft **	-	2,956,986
	60,484,793	58,293,974
Split between non-current and current portions		
Non-current liabilities	22,544,629	26,770,433
Current liabilities	37,940,164	31,523,541
	60,484,793	58,293,974

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Source (Honey well annual report 2021)

Notes to the accounts 2021

The amount of bank loan balance was considered as a key audit matter, which means it could be seen as an operational risk factor and if not attended to would definitely affect the financial performance.

FIGURE 11: Statement of Cashflow for Honeywell Nigeria.

Cash flow from financing activities			
Finance costs	21	(6,069,303)	(4,227,396)
Dividend paid		(317,208)	-
Increase in borrowings	11	5,147,805	2,910,054
Net cash from financing activities		(1,238,706)	(1,317,342)

Source (Honey well annual report 2021)

The cashflow gives more insight as to the nature of the borrowings. It reflects that out of the previously taken loan, none was paid back in the current year. So it keeps accumulating more debt.

FIGURE 12: Statement of profit or loss and other Comprehensive Income for Honeywell Nigeria.

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Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 March, 2021

	Notes	2021 N'000	2020 N'000
Revenue	16	109,594,730	80,450,397
Cost of sales	17	(93,973,456)	(66,588,559)
Gross profit		15,621,274	13,861,838
Other operating income	18	140,712	116,209
Selling and distribution expenses	20	(5,543,372)	(6,035,551)
General and administrative expenses	20	(2,572,565)	(2,444,863)
Operating profit	19	7,646,049	5,497,633
Finance costs	21	(6,069,303)	(4,227,396)
Profit before taxation		1,576,746	1,270,237
Taxation	14.1	(450,826)	(619,712)
Police Trust Fund Levy		(56)	(33)
Profit for the year after taxation		1,125,864	650,492
Other comprehensive income:			
Total comprehensive income for the year		1,125,864	650,492

Source (Honey well annual report 2021)

The implication of this is increased finance cost, in 2020, the finance cost was N4, 227,396 and it grew to N6, 069,303 which is a growth of 43.6%. It is also worthy of note to state that the finance cost for the year increased by approximately N2, 000,000, while the total borrowings for the year increased by approximately N2, 000,000. The finance cost is starting to grow at the same rate with the total liability probably due to higher interest rate. Furthermore, the more finance cost incurred the lower the net profit income. If this key audit matter that was raised is not assessed by the management in the following year. The finance cost will keep rising and this will not only reduce the net-profit but also it could lead to a financial problem that would affect the performance of the firm financially.

	2021	2020
EBIT	7,646,049	5,497,633
INTEREST	6,069,303	4,227,396
INTEREST COVER RATIO	1.26	1.30

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Comparing the year 2020 to 2021, it can be observed that the interest cover ratio reduced by 3.1% from 1.30 to 1.26, meaning that the ratio of earnings before tax that can be used to offset interest is reducing and this is because interest is growing faster than the Earnings before interest and tax.

	2021	2020
EQUITY	57,968,678	57,160,022
DEBT	89,425,978	85,101,270
DEBT TO EQUITY	1.59	1.49

The Debt-to-Equity ratio in 2020 was 1.49 and in 2021 it grew to 1.54, which is a 6.7% growth over the last year. If the D/E ratio keeps rising and becomes too high. Any losses made might be compounded down and the company wouldn't be able to make up for its debt.

It is important to note that a continuous increase in finance cost could have a negative impact on the financial performance of the company. However, disclosing KAM in the company's financial statement and stating steps on how this matter is addresses during the audit of the financial statements boosts shareholder's confidence and this has a positive impact on the financial performance of the company. By stating clearly in the KAM section of the financial statement that the matter identified which in this case is borrowings, does not constitute any material misstatement or affects the going concern status of the company, positively influences shareholders confidence which in turn drives profit for the company. The impact of highlighting this key audit matters is obvious and it can be seen that audit standards influence the financial performance of firms if adhered to. Figure 9, in addition shows the positive impact of KAM on stock market performance as a result of an increase in the level of profitability of the company.

4.2.3 Oando Plc

Oando is an Energy company investment with a strategic focus. Through its subsidiaries, the company is involved in petroleum product supply and distribution, as well as exploration and production. Most of the company's income comes from trading and supply.

FIGURE 13: Key audit matter excerpts from Auditors report.

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Key Audit Matter
<p>Discontinued operations and accounting for sales/divestments</p> <p>During the year, the group completed the sale/divestment of a number of entities within its Downstream and Gas & Power businesses.</p> <p>The sale arrangements especially as it relates to the downstream business, involved a number of complex transactions and the use of management estimate.</p> <p>The result from discontinued operations is based on the expected sales proceeds, including the settlement of the net debt/working capital, which has not been finalized between the buyer and Oando Pic for the downstream as at 31 December 2016. Based on an internal analysis of the net debt /working capital items, management determined a best estimate to establish an adjustment to the sales proceeds to account for the outcome of the settlement process.</p>

Source: Oando annual report 2016

4.2.3.1 Key audit matter- Discontinued operations and accounting for sales/Divestments

Using the annual report for Oando, the Key audit matter that was raised was involving management estimates. The management made some estimates to determine sales proceeds for a particular transaction. It is worthy of note that if these estimates were made on the wrong premises, there is a high chance of misstatement in the financial statement. From the accounting aspect of risk, it could lead to reporting wrong figures and invariably overstate or understate profit/loss, which would mean reporting a financial performance to shareholders that is not true. The implication of flagging this as a key audit matter is to highlight this matter as an area susceptible to risk of material misstatement and to ensure that management report the right sales proceeds based on reliable estimates which will portray a realistic position of the firm. Asides from improving operational performance that leads to improved financial performance. Key audit matters identify poor accounting reporting and ensures it is corrected so that the right financial performance is reported.

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FIGURE 14: Statement of Financial Position for Oando Plc.

		Strategic & Operational Review	Governance	Financial Statements	Additional Information
Annual Consolidated Financial Statements					
Consolidated statement of financial position					
For the year ended 31 December 2017					
					N'000
Assets	Notes	Group 2017 N'000	Group 2016 N'000 Restated¹		
Assets					
Non-current assets					
Property, plant and equipment	15	343,466,113	293,541,702		
Intangible assets	16	426,866,570	361,530,468		
Investment property	17	1,033,000	-		
Investment in associates	18	7,540,014	10,653,425		
Deferred tax assets	19	46,108,713	44,758,179		
Derivative financial assets	20	-	844,438		
Finance lease receivables	21	72,539,702	60,926,511		
Non-current receivables	22	23,202,580	22,034,389		
Available-for-sale financial assets	25a	-	2,867		
Prepayments		-	6,292		
Restricted cash	26	12,479,146	6,538,952		
		933,235,838	800,837,223		
Current assets					
Inventories	23	2,583,094	12,804,332		
Derivative financial assets	20	18,572	6,088,089		
Trade and other receivables	24	93,798,956	107,002,077		
Prepayments		2,582,527	4,263,242		
Available-for-sale financial assets	25a	61,856	112,775		
Cash and cash equivalents (excluding bank overdrafts)	26	7,895,061	10,390,585		
		106,940,066	140,661,100		
Assets of disposal group classified as held for sale	27f	-	50,046,652		
Total assets		1,040,175,904	991,544,975		
Equity and Liabilities					
Equity attributable to equity holders of the parent					
Share capital	28	6,215,706	6,017,309		
Share premium	28	176,588,527	174,806,923		
Retained loss		(138,677,099)	(151,868,568)		
Other reserves	29	131,475,022	93,407,737		
		175,602,156	122,363,401		
Non controlling interest		87,833,624	69,981,178		
Total equity		263,435,780	192,344,579		
Liabilities					
Non-current liabilities					
Borrowings	30	99,587,920	101,639,606		
Deferred tax liabilities	19	222,207,944	198,908,983		
Provision and other liabilities	31	54,880,692	40,549,807		
Retirement benefit obligations	33	-	1,161,705		
		376,676,556	342,260,101		
Current liabilities					
Trade and other payables	34	187,935,945	198,459,488		
Derivative financial liabilities	32	-	199,137		
Borrowings	30	137,854,339	144,478,109		
Current income tax liabilities	13b	72,405,657	59,108,565		
Provision and other liabilities	31	217,350	525,629		
Dividend payable	35	1,650,277	1,650,277		
		400,063,568	404,421,205		
Liabilities of disposal group classified as held for sale	27f	-	52,519,090		
Total liabilities		776,740,124	799,200,396		
Total equity and liabilities		1,040,175,904	991,544,975		

Source: Oando annual report 2017

The total equity highlighted below typically shows the residual value attributable to shareholders after all liabilities and debt have been settled. An increase in total equity signifies stable finances and also more flexibility for the company in case of an economic or financial downturn. Total equity is a means to understand the financial health of a company. In the case of Oando plc, there

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is an increase in total equity in 2017 – the following year from 2016 when the KAM was identified which signifies an increase in company’s earnings.

This shows that disclosure of key audit matters in the financial statement of a company drives transparency which increases shareholders’ confidence; which suggests that Investors are more willing to buy shares in these companies which leads to more earnings; thus, positively impacting financial performance.

Figure 9 Observation of the impact Audit standards on stock growth (2019-2022)

OBSERVATION OF AUDIT STANDARDS, KEY AUDIT MATTERS AND STOCK PERFORMANCE OVER A PERIOD OF THREE YEARS(2019 - 2022)			
Nigerian Companies	Key audit matter in observation year	re-occurring in following year	Stock growth performance
Nestle	Other long term employee benefits	Addressed	4%
Access bank plc	impairment of loan and advance to customers	Re-occurred	65%
Oando	Discontinued operations and accounting for sales/Divestments	Addressed	4%
Honeywell flour	borrowing	Addressed	138%
Guinness	Impairment allowance on trade receivables	Addressed	32%
Jilius berger Nigeria	Wrong standard was adopted for revenue from contract with auditors	Addressed	32%
Lafarge	inventory obsolescence allowance	Re-occurred	31%
Dangote	provision for site restoration and inspections	Addressed	44%
Glaxosmith	assessment of recoverability of deferred tax	Addressed	-50%
MTN nigeria	Partial disposal of subsidiary	Addressed	103%
United capital	loss allowance on financial assets	Addressed	-49%
AIREL	going concern	Addressed	489%
BUA	Identification and measurement of loan	Addressed	23%
Abbey mortgage bank plcc	impairment of loans and advances	Re-occurred	89%
academic press	impairment of financial assets	Addressed	312%
may and baker	going concern	Addressed	63%
Seplat energy	The impact of crude oil and gas reserves on oil and gas properties (Impairments and Depletion, Depreciation and Amortisation – DD&A).	Addressed	126%

The figure above examines listed companies across different sectors of the economy. It shows the evaluation of audit standards, how they were applied using key audit matters and going concern disclosure and how the performance of these companies changed over time after responding to these key audit matters highlighted.

From the above, by performing in-depth research on the financial statements of listed companies, most of the companies that disclosed KAM and also took appropriate actions in the following years saw a positive impact on their financial performance.

4.4 Findings

The analysis process presented the different types of information and data which helped to understand the impact of KAM and audit standards in Nigeria and their impacts on the financial performance. As per the report of ICAN (2013), the standards like transparency, report of each and every transaction, confidentiality and others are essential for the audit process for the Nigerian companies to determine the financial performances. In the process of determining the financial report framework is used which follows the Companies and Allied Matters Act (CAMA), 2004. This law helps the auditors to gather the financial activities of the different private and public businesses. The profound information presents the idea of their work process which is associated with the financial aspect. As per the study of Hassan and Farouk (2014), the management process is helpful to increase the performance of auditors to gain the knowledge of the financial activities of the different firms in Nigeria which are able to remunerate the financial reports. In the scenario of financial performance credibility and authenticity of the financial reporting is essential which is directly connected with the auditing method.

The auditors need to focus on the standards which are presented by the NSA and this can increase the efficiency of the reporting process to improve the performance of gaining better assets and returns. The auditing process also helps to understand the market environment which eases up the process to find the better scopes to improve the performance (Hassan and Farouk, 2014). The audit committee of the companies maintains the dual role of assessing the financial activities and performing the proper managerial activities through consulting with the management. These two roles of audit committee provide around 5% significance in the different financial activities of the businesses (Zango, 2021). The independence of the internal audit committee is not connected with the quality of the work of declaring financial performance, so following the standards of the NSA can only help the firms to develop proper evaluation of their financial report which can assess the performance efficiently.

Abiola et al (2012), stated that the corporate governance practices of the company's focus on the management process of the financial aspects which helps to manage the auditors to develop on the basis of following the regulatory financial reporting process. The internal auditors of Nigerian companies mainly use the scopes which are helpful to get the different unethical rebates. This type of creative accounting process resulted in the collapse of various sectors in Nigeria which was also not healthy for the country to get the better contribution in the economic area. The study of

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Ezejiolor and Erhirhie (2018), suggested that the audit quality of the companies hampers their business process and also fails to present the evidence of the financial transactions. The standards of auditing of Nigeria can help to establish these aspects which are associated with the transactions of the organisations and this process can enhance the financial reporting process which is essential to improve and evaluate the financial performance properly.

The aforementioned analysis has largely focused on evaluating the impact of audit standards in assessing the financial performance in Nigeria. Assumed from the report of OR&C (2011), that most of the companies in Nigeria have been complying with standards imposed by NASB for a number of years; however, it has been disclosed that diversity of local GAAP would be problematic in the matter of comparing the financial performance with a significant aim of pinpointing the major challenges of audit standards in Nigeria, it has been conceived that there are challenges coming from external auditors as compared to internal auditors, nonetheless there are also some crucial challenges as well.

It has been brought about that poor funding, lack of facilities for carrying out auditing functions, lack of independence and inadequate staffing, and many others have made a contribution in leading the challenges in internal auditing in Nigeria (Appah and Ogiriki, 2018). In addition to that, lack of knowledge of auditors, especially in the context of technology has turned into a great obstacle in successfully leading audit standards in Nigeria as in this country, the education level seems to be low as compared to other countries. On the other hand, it has been analysed that in fair value accounting, the to-most challenge is technological challenges created for the external auditors as compared to historical cost accounting due to inadequate reliable information. However, the uncertainty forged by the pandemic of Covid-19 has also posed some potential challenges for measuring the financial performance in Nigeria as this uncertainty has adversely impacted the economy, the management as well as the other inputs required for assessing financial statements (Kumshe, 2021). The accounting profession in Nigeria has been considered under the “intense” pressure due to rising expectations of the public as a result of financial failures occurred during the year of 90s and 80s (Chukwudumebi and Enyi, 2012). The report of WTO (2020), focused on determining that poor risk and audit management as well as lack of adequate education about the risk management possessed the audit standard in risk in Nigeria. Moreover, as per the report of UNICEF (2020), it has been derived that due to both external and internal auditors’ challenges, Nigeria has confronted difficulties in achieving the MDGs by the United Nation.

4.5 Summary

Evolved from the foregoing data analysis and findings, it can be summarised that Nigerian companies are greatly committed to the certain audit standards, for assessing the financial performance, however there are some consequential challenges that would negatively impact the audit standard as well. Besides, lack of technical knowledge, poor risk and audit and risk management, lack of independence, lack of education, lack of reliable information in fair value accounting, and some others have been proven as the potential challenges for the audit standard of Nigeria.

Chapter 5: Discussion

5.1 Introduction

The discussion chapter is to present the confabulation of the different aspects which are presented in the previous chapter and connect with the objectives of the study. The main aim of this chapter is to convey the why the findings of this research work is important. The detailed aspects of the study can develop proper arguments which are essential to answer the research questions. The discussion portion is essential in this study to present the knowledge which is gathered from the different areas of this research.

5.2 Discussion

In time past, previous researchers have written studies on audit standards but there is little literature existing on the impact of audit standards on financial performance which is what this research study aims to contribute. However, the previous studies available have been examined alongside the finding of this research to bring to further discussion.

This research has proven that audit standards affect the financial performance of firms in Nigeria, from the in-depth study that was carried out it was evident how audit standards that have been set for auditors to achieve good audit quality can also impact financial performance. These audit standards also double as a risk identifying mechanism for these companies and with the identification and disclosure of these high-risk areas as key audit matters, it brings the attention of the management to pay attention to specific financial concerns or wrong application of accounting standards. This concerns when raised and responded to have the ability to curb financial disaster from occurrence in the future. It also helps to make reporting more transparent and without having the transparent view of a company's performance the management might not take necessary actions to ensure out improves on certain areas so audit standards and disclosures help to put management in the right perspective of their financial position.

This study is unique because its main focus geographically is Nigeria, previous research available do not have their focus in Nigeria however this finding supports their research. There might be some limitations or differences in types of audit standards and how they are applied but ultimately, they have one thing in common they bring to the limelight concerns that should not be hidden, and if addressed properly could enable the firm to improve both operational and financially. Audit standards and disclosures can also drive trust in investors, when investors know that the

management of an organisation would always address audit concerns if any. They would have more confidence trusting their financial report to make investment in these firms.

This research has resulted in a new finding because previous research focused on the European system but this currently gives a clear result of how audit standards can impact financial performance in Nigeria. As similar as the previous studies are, it's different because context differs, culture differs and reporting systems as well as audit systems themselves differ. So, because the audit standards in a different country is built up to influence performance does not mean every country will have the same result. This study contributed by displaying that the Nigerian audit standards that are locally built can improve the financial performance of companies in Nigeria.

5.2.1 Practical implications of the study

Organisations.

The implication of this is that organisations can now decide to imbibe the culture of having annual external audits to give them an independent opinion of their financial statement because this will help them to not only report their position correctly but to enable them realise their high-risk areas which might be oblivious to the management of the company. This will enable their financial performance to improve over time if addressed properly.

Investors

The implication of this study for investors is that now they know that key audit matters are very integral to the financial performance of the firm so they would always check to discover the key audit matter that has been raised previously by the auditors and also seek to understand how it impacts the financial performance of a company before making investment decisions

Employer

This would also enable employees to produce quality work when they know that they would be audited and the management would discover their misstatement or manipulation of amounts they would strike to report the right transactions and perform better. This way employer would be less worried about their employees' manipulation and inefficiencies because it would be discovered

5.3. Previous research work that support findings

The audit standards mainly follow the aspects like transparency, confidentiality and other areas to ensure the credibility and authenticity of the financial reports. As per the study of Omwono and Wanyama (2021), internal audit and the financial performance of the companies are directly connected which helps to manage the ethical transactions with proper process. The budgetary controls are also established through the audit process which helps to maintain the spendings with proper reporting (Omwono and Wanyama, 2021). The management of the companies use the help of the auditors to find the proper scopes to perform the different transactional activities which are essential to manage the assets and returns properly. The study of Rahman and Ali (2022), recommended that the financial and non-financial performances rely on the proper audit system due to their process of following the standards which are formulated by the regulatory bodies of the different countries. The audit standards of the countries focus on the ethical aspects which are necessary to maintain the financial efficiency of the companies.

The effective process of auditing in the different businesses follows the rules to present their financial areas which are associated with the activities of the firms. According to Knechel (2013), the auditing standards are helpful to maintain the effectiveness and efficiency of the process of audit. This method can reduce the financial issues in the companies and provide more in-depth financial reports which can present their activities to their reports. In the process of assessing the financial performance of any business the audit standards provide a basic foundation to the auditors to develop the report with proper components. This process is able to increase the authenticity and credibility of the reports which also improves the overall quality of the financial performance of the businesses (Knechel, 2013).

5.3.1 The impact of Nigerian audit standards on financial performance

The NSA maintains a strong relationship with the financial performance through focusing on mitigating these risks and providing an almost financial statement. The study of Eluyela and Ilogho (2016), shows that the negligence of the auditors is responsible for the failure of the different types of Nigerian businesses through lack of understanding of the financial performance.

The audit system of NSA helps to mitigate these risks and follow the process of a proper auditing system which can present a clarified and authentic performance record of the financial aspect. The audit quality has been the critical factor in the assessment process of the financial aspect which is

able to manage and eliminate the risks properly. As per the study of Ezejiofor and Erhirhie (2018), the size of the auditor and their following procedures presents a strong impact on the return on assets and return on equity. The independence of the auditors does not directly impact the financial performance of the companies, so the proper protocols can be followed to enhance the preparation of the financial reports. Moses, Ofurum and Egbe (2016), recommend that the orientation and reorientation of the auditors plays huge roles in the quality of the financial reporting process. The main auditing standards state that the technical training and the proper proficiency of the knowledge of the audit of the auditors are essential. According to ICAN (2013), the aspects like communication and transparency of the different types of variables which are associated with the financial performance are necessary to represent the performance properly. In Nigeria the companies somehow failed to present the financial performance as per the standards due to the failure of meeting the standards by the auditors (Eluyela and Ilogho, 2016). Transparency of spendings and the financial activities mainly represents the performance factors, so this standard is important in the process of representing the financial performance. The study of Hazaea et al (2020), presents the idea that the governance of the system helps to maintain the standards which are related to the developing process of the financial report.

In Nigeria the auditors need to focus on the obtaining process to get the reasonable assurance of the different spending and gaining activities to understand the different scopes of revenue, loss and other financial areas properly (ICAN, 2013). The sample size of the auditing process is determined through the application which runs on the statistically based formulas which is a Nigerian audit standard (ICAN, 2013). Internal control is also a major area which mainly represents the independence of the auditors to maintain confidentiality, integrity and others in their auditing process. The NSA presents these standards which are followed by the auditors of Nigeria to deliver their financial performance. The discussion helped to establish that the aspects of the Nigerian auditing standards are well connected with the defying factors of the financial performance. The standards help to focus on the major areas and maintain required controls which enhance the credibility and authenticity of the performance report.

5.3.2 Assessment of how audit standards can improve financial statements.

According to the report of PWC (2017), it has been evaluated those financial statements, especially the financial performance consorted with public and private companies, is ascertained by

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independent auditors, utilising a framework of GAAS or “Generally Accepted Auditing Standards”. In addition to that, it largely involves setting out guidance and requirements on the way of conducting an audit also simply exemplified as auditing standards (PWC, 2017). In reverse, considering a study of Nigerian banks along with auditors’ performance and standards the report of Falola, Alasia and Udochukwu (2018), revealed that auditing standards are considered important in augmenting the performance of auditors in the banking industry. The findings of the ensuing study also revealed that performance of the auditor and accountability in the Nigerian banks are related in a positive manner, implying that the performance of the auditors would be enhanced when they significantly involve complying with auditing standards (Falola, Alasia and Udochukwu, 2018). Based on the study of Yahaya and Yahaya (2011), it can be determined that NASB or “Nigerian Accounting Standard Board” is extensively accountable in the matter of updating, publishing and developing statements associated with accounting standards for assessing financial statements. Additionally, in support Asuquo (2013), commented that NASB, established in 1982, enables accounting standards that make a contribution in resulting in the provision of comparable and accurate information about the position of business entities as well as the true financial performance.

Furthermore, with a focus on evaluating the impact of auditing standards for assessing the financial performance, this activity can be involved in promoting market integrity and investor confidence, thereby curtailing the costs related to capital throughout the economy (Asuquo, 2013). As per the findings of Akinmoladun (2018), it has been analysed that every business entity in Nigeria holds the legal responsibility for preparing financial statements or a statement of accounts at the end of their financial year under some sections. These sections include 370 and 375 associated with Companies and “Allied Matters Act (Cap 20) LFN (2004) (CAMA) or Laws of Federation Nigeria”. Besides, it has also examined that certain standard in terms of the preparation of financial statements in Nigeria are significantly followed for use of financial statements and ease of interpretation (Akinmoladun, 2018).

On this consequence, it has been addressed that an entity must be effectual in measuring the outcome regarding a performance obligation reasonably before the associated revenue can be determined (Oyedokun, 2016). In opposition, the report of OR&C (2011), delineated that companies in Nigeria have been complied with standards issues by NASB for a number of years, representing Nigerian GAAP or “Generally Accepted Accounting Practice” allows entities in

terms of issuing “abridged” financial statements to users, only applying to reduced financial statements issues by organisations under the Act of “Companies and Allied Matters”. However, it has been noticed that the diversity of local GAAP would provide an outcome in complexity in comparing the financial performance of the insurers without “significant disclosure” (OR&C, 2011).

5.3.3 Financial Performance

The NSA presents different standards which are needed to ensure authenticity of the evaluation of the financial performance. The study of Olojede et al (2020), presents the information that in Nigeria the expectation gap of audit is present which resulted in lack of trust among the customers. The unreasonable expectations from the auditors by the different companies of Nigeria mainly reduces the trust of the financial reporting which creates this problematic situation which fails to manage the financial performance. The advancement of technology resulted in the increase of complex transactions which mainly increased the challenges for the auditors to follow the proper process of NSA for the development of the report (Olojede et al., 2020). The auditors of Nigeria failed to follow the presented standards which resulted in the increase of the financial scandals. As per the study of Otusanya and Uadiale (2014), in Nigeria the financial scandals are on the verge of rise due to the scopes of the creative accounting process which mainly causes the corporate collapse. The rules and standards of the audit process of Nigeria mainly fail due to their socio-political framework which creates the issue for the people to trust the financial reporting process (Otusanya and Uadiale, 2014). According to Nelson (2019), the breach of the public trust due to the corruption of the different companies mainly followed the divergent accounting process which fails to follow the proper process of accounting.

The NSA standards are not followed by the companies to present their financial activities through the audit system. According to Okoye and Ofoegbu (2011), the audit rules of Nigeria which leads to the failures of the different industries due to the lack of proper method to assess the performance. In the audit standards of Nigeria transparency is one of the essential aspects which is violated over the period of time by the different businesses. This type of behaviour of the auditors mainly creates the situation where performance tracing is not possible. As per the report of Nelson (2015), the Nigerian National Petroleum Corporation (NNPC) exploits the spaces of the Nigerian audit standards to hide around \$20 billion from their returns. This activity decreases the trust and the

authenticity of the financial reports of the public and private companies of Nigeria. ICAN (2013), stated that the partnership with the different international organisations used by the local businesses to hide their financial activities can be failed to be corporate and measured by the auditors. The documentation of each and every transaction and their evaluation can help to diagnose their authenticity and credibility which is essential for the development of the financial report. The government bodies who are responsible for the regulations and evaluation of the financial activities need to implement the quality controls of the auditory system to monitor their internal auditing method and find the problematic areas to decrease the chances of violation of the standards (ICAN, 2013). The ethical aspects are also needed to be followed by the auditors to engage with the evolution of the financial performance process through maintaining the transparency, integrity and others properly. The constant monitoring of the public sector entities can dilute the corruption scopes which can enhance the chances of presenting authentic financial performance of the different companies. Babatope and Adewunmi (2019), recommended that the internal audit process directly links with the efficient evaluation of the financial performance of the businesses.

This internal audit system needs to verify each and every transaction which is associated with the companies to describe their financial behaviours. The implementation of the standards is not properly done and monitored by the regulatory bodies which creates expectation gaps in the final reports. These aspects possess a huge threat for the better evaluation of the financial performance which is essential to gain the knowledge of the financial activities of the businesses (Babatope and Adewunmi, 2019). The management needs to conduct consultant sessions with the audit department to find the proper scopes to perform any transactions which are required. This process can help to perform these types of transactions in a more transparent manner which can present the financial resorts in a more critically constructed way.

6: Conclusion and Recommendation

6.1 Conclusion

Based on the above discussion it has been concluded that audit standards play a significant role in impacting the financial performance of a firm, given the fact that there is transparency and the statements are accurately provided. This is one of the reasons why the auditors have standards which basically provides the guidelines that are required to be followed in order to ensure that there is authenticity in the reports of the auditors and the companies are sharing their financial statements with utmost accuracy. It can be stated that the Institute of Chartered Accountants in Nigeria are responsible for comprehending the financial performances, they work as the regulators which ensures the transparency and reliability of the audits done by the auditors including independent one. The Nigeria Standards of Auditing (NSA), contains all the regulations which the auditors are supposed to adhere to in order to carry out the auditing process in an effective manner. On the basis of the study, it can be concluded that in Nigeria the NSA helps in maintaining the stronghold on the auditing process which ensures that there is no mistake in the auditing process that has a negative impact on the businesses. In fact, it is the mistake of the auditors which is one of the most recurrent causes that lead to the failure of businesses. It is the report submitted by the auditors that decides the return on asset and the return on equity of an organisation which is necessary to determine the overall performance of the business. Apart from that the auditing process and the efficiency with which the auditors submit the reports also helps in the growth of the auditors which further improves their reputation in the banking industry. The more an auditor is able to provide an accurate financial report which helps an organisation and the evaluation of their performance it enhances the success of the auditing firm or independent auditors as well. The fact that proper evaluation of the financial report is emphasised on in Nigeria because considering the poor condition of the economy, growth of businesses play a significant role in that and financial report helps in understanding the performance of the companies. Based on this it can be stated that the two research questions have been answered by this study.

6.2 Recommendation

Taking into consideration that the study has been conducted on the audit standards in Nigeria, this study has gathered secondary qualitative data in the form of thematic analysis, which was the most

suitable option for a cross sectional study trying to gather a large amount of data for providing an in-depth analysis of the study. However, it can be suggested that if there was more time in hand adding a primary quantitative data could have also helped in bringing a lot of information which would have allowed the study to understand the real time scenario and situation prevailing in the auditing industry of Nigeria. The reason that this has been suggested is that collecting data in the form of a survey which had involved several business owners of Nigeria, could have provided more of their subjective auditing experiences and the issues they have faced in providing financial statements to the auditing bodies. This would have helped in providing an insight on the issues that has been encountered on most ends to provide a more in-depth analysis of the data. On the other hand, the survey since the survey would have allowed the study to gather more data in numerical forms it would have been easier to understand the prevalent understanding of the majority regarding their auditing standards. Apart from that it is also recommended that had there not been any time constraint, the study could have also provided a comparative study with one of the G7 countries which had helped in identifying the differences, and the effectiveness of the audit standards that are followed by Nigeria. This would also help in understanding the various ways where Nigeria has more enhanced policies and the deficiency in their standards as well. The inclusion of the comparative study would have helped this study to analyse the problems that the Nigerian Auditory bodies are facing and the strategies that can be implemented by them in order to combat those issues. As it has been seen that they have faced challenges like shortage of employees, lack of facilities and others. This is due to the fact that mitigating these issues would enable the nation to have more effective auditory standards that will help in better financial performance analysis. These are some of the recommendations which could have been integrated in this study if there were no time constraints.

6.3 Limitation of the Study

On the basis of this study, it can be stated that since the study was supposed to be finished within a limited period of time, there were certain other factors and data which could not be added to this research. This is considered to be one of the foremost limitations of the study. Also, in this scenario gathering primary qualitative or primary quantitative data could have helped due to the subjective experience of people that could have been collected through them, however as there were time limitations it could not be included in the study. This is due to the reason that collecting primary data could have helped in bridging the literature gap as well. But there was only a limited period

of time available. Based on this it can be stated that the major limitation has been due to the time constraint and also limited data sources which restricted the study to add further data that could have helped in mitigating literature gap as well as provide more in-depth analysis of the subject of the study.

6.4 Future Scope

For future endeavours it has been identified that if there is more period of time they can add primary qualitative data in the form of an interview, where they can take the interview of independent auditors who will be able to provide details regarding the prevalent scenario and the effectiveness of the current auditing standards. This will help the future researchers to understand the standards which are effective and those which contain loopholes that allow both the auditor and the businesses to be involved in corrupt activities. On the other hand, taking the interview of auditors from Nigeria will help them gain insight on the audit process in Nigeria which will further help in analysing the issues they face and the steps that are taken by them in order to ensure that the financial statements handed by the businesses are accurate.

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