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RELATIONSHIP BETWEEN AUDITOR'S INDEPENDENCE AND THE CREDIBILITY OF AUDITED FINANCIAL STATEMENTS IN NIGERIA

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Abstract: *The purpose of this study is to ascertain the connection between the independence of the external auditor and the credibility of audited financial statements inNigeria.Specifically, the study seeks to find out (i) if there is a significant relationship between the external auditor's integrity and the credibility of audited financial statements in Nigeria and(ii) an objective approach to the external audit process is significantly connected with the credibility of audited financial statements in Nigeria. Survey research design was employed while Chi-squared technique was used for analyzing the data.The data used for this work were collected using a well-stuctured questionaire collected from 150 users of audited financial statements in Enugu State. The results of the study show that there is a significant relationship between the external auditor's integrity and the credibility of audited financial statements in Nigeria. The study also finds that an objective approach to the external audit process is significantly connected with the credibility of audited financial statements in Nigeria. It recommends that auditor's independence should be strengthened by taking different measures such as reduction in the tenure of auditors,regular rotation of auditors and appropriate audit fees.*

Keywords: Auditor's Independence, Credibility, Financial statements, Nigeria

1.1 Introduction

One of the consequences of free trade which resulted from globalization is the positioning of companies as the main actors in the economy (Saputra, 2015). Related to this is the fact that both states and businesses are now compelled to get themselves ready to adapt to the changes caused by globalization. According to Saputra (2015), this development is a change in the external business environment that is compelling the company to produce strong competitiveness if they have to receive the benefits of globalization. The free flow of goods and services and several additional production factors in the era of globalization have made the demographic boundaries of a country to become irrelevant. Investors from various countries can now invest in other countries that provide better returns simply by studying and analyzing the relevant information before making an investment decision.

One of the crucial documents employed as sources of information is the financial report. The basic purpose of financial statements is to assist decision makers in evaluating the financial strength, profitability and the future prospects of a business entity, The basic objective of preparing financial statement is to provide information useful for making economic decisions. Hence, the necessity for preparing financial statements that can be trusted by investors cannot be overemphasized. To ensure that those statements are believed, the audit of financial statements is necessary - especially for those companies that are incorporated in the form of limited liability companies. The management of a company appointed by the shareholders are usually held accountable, in the form of financial statements, for the funds applied in the management of that company.

Bahram (2007:444) cited in Saputra (2015) contends that if an audit is to be carried out in a manner that meets the reasonable expectations of the users of audited financial statements, it is necessary to ensure that it is performed with due regard for quality. The audit firm must not succumb to the temptation of compromising quality to achieve financial benefits. In order to ensure high audit quality and restore public investor confidence in corporate financial reporting, greater regulation of the profession has been put in place in many countries. Also, the financial failures in many countries have significantly influenced the international regulatory environment in a way that requires a response.

The setback of the banking sector in Nigeria was partly as a result of financial and accounting scandals which directly or indirectly involved the auditors. Literature has it that twenty-six (26) banks were liquidated in 1997 and that there were post- consolidation banking crises in 2009 when ten (10) banks were declared insolvent and eight (8) executive management teams of the banks were sacked by the Central Bank of Nigeria (CBN). In 2006, Cadbury Nigeria Plc was involved in a very serious corporate scandal. All of these events and case deeply influenced and affected the psyche of the shareholders negatively.According to Adeyemi and Asaolu (2013), the centres of discussion as all of those scandals became manifest were the reliability of accounting information and the necessity of reviewing the effectiveness of accounting standards, auditing processes and financial reporting practices.According to Nashwa(2003),the challenge is that the corporate management is empowered to appoint, hire, fire, and pay both their internal and external auditors. Consequently,auditors tend to parley and conive with management in a bid to retain the job of the client.For this reason, auditors may not be reasonably and practicably independent of the corporate management because they will have the desire to keep their clients for as long as possible . Adeyemi and Okpala (2011).report that several audit failures have taken place in Nigeria, some leading to the restatement of figures in the financial statements. Although it has not been proven by any detailed investigation that these audit failures were due to the impairment of auditor"s independence, this could reasonably be suspected to be a major contributing factor.

This study,therefore, seeks to ascertain the extent to which the independence of statutory auditor has a relationship with the credibility of financial statements in Nigeria. Specifically, the study seeks to find out (i) if there is a significant relationship between the external auditor's integrity and the credibility of audited financial statements in Nigeria and(ii) whether an objective approach to the external audit process is significantly connected with the credibility of audited financial statements in Nigeria. The result of this study will further clarify the extent to which auditor's independence significantly affects the crdibility of audited financial statements in Nigeria. The rest of the paper is structured as follows:- Section 2 reviews the related literature; Section 3 dicusses the methodology;Section 4 presents and analyzes the empirical data while section 5 concludes the paper.

2.Review of related literature

2.1 Conceptual framework

2.1.1 Audit

An audit is a systematic and independent examination of books, accounts, statutory records, documents and vouchers of an organization to ascertain how far the financial statements as well as non-financial disclosures present a true and fair view of the concern. It also attempts to ensure that the books of accounts are properly maintained by the concern as required by law.

Auditing has become an ubiquitous phenomenon in the corporate and the public sectors. Auditors perceive and recognize the propositions before them for examination, obtain evidence, evaluate the same and formulate an opinion on the basis of their judgment which is communicated through their audit report.

Any subject matter may be audited. According to Arens, Elder, Beasley, Best, Shailer and Fielder(2011), auditing is the accumulation and evaluation of evidence concerning the information needed for determining and reporting on the degree of correspondence between the information and established criteria. Similar definition was made by Messier (2008) that considers auditing as a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users. Auditing has been a safeguard measure since ancient times. Audits provide third party assurance to various stakeholders that the subject matter is free from material misstatement. The term is most frequently applied to audits of the financial information relating to a legal person. Other areas which are commonly audited include secretarial and compliance audit, internal controls, quality management, project management, water management, and energy conservation. As a result of an audit, stakeholders may effectively evaluate and improve the effectiveness of risk management control and the governance process over the subject- matter.

The word audit is derived from a Latin word 'audire' which means 'to hear'. During the medieval times when manual book-keeping was prevalent, auditors in Britain used to hear the accounts read out for them and check that the organization's personnel were not negligent or fraudulent.In the medieval times, the detection of fraud was identified as the most important duty of the auditor. Chatfield documented that early United States auditing was viewed mainly as verification of bookkeeping detail.

Genesis of auditing

In the early days, an auditor used to listen to the accounts read over by an accountant in order to check them. Auditing is as old as accounting. It was in use in the ancient countries such as Mesopotamia, Greece, Egypt, Rome, United Kingdom and India.

The original objective of auditing was to detect and prevent errors and frauds. Auditing evolved and grew rapidly after the industrial revolution in the 18th century. With the growth of joint stock companies, the ownership and management became separate. The shareholders who were the owners needed a report from an independent expert on the accounts of the company managed by the board of directors who were their employees. In the later years,the objective of audit shifted and an auditor was expected to ascertain whether the accounts were true and fair rather detect errors and frauds. In India the Companies Act 1913 made the audit of company accounts compulsory. With the increase in the size of companies and the volume of transactions, the main objective of audit shifted to ascertaining whether the accounts were 'true and fair' rather than 'true and correct'. Hence the emphasis was no longer on the arithmetical accuracy but on a fair representation of the financial efforts. The Companies Act.1913 also prescribed for the first time the qualification of auditors. The International Accounting Standards Committee and the Accounting Standard board of the Institute of Chartered Accountants of India have developed standard accounting and auditing practices to guide the accountants and auditors in the day to day work

2.1.2 Auditor's independence

Auditor's independence has been defined as the ability of the auditor to maintain an objective and impartial mental attitude throughout an audit(Bahram (2007). Rick, Roger, Arnold and Philip (2004) define it as a condition under which an auditor could take an unbiased viewpoint in the performance of audit tests, analyses of result, and attestation in the audit report of an entity. In addition, Arens et al. (2011) consider audit independence as requiring an attitude of responsibility that is separate from the client's interest ; the auditor maintains an attitude of healthy professional skepticism.In summary, Auditor's independence is the auditor's ability to maintain a mental attitude objectively and impartially in the interest of the client while conducting the audit, analyzing the results and attesting to the audit report without influence. Independence of the auditor,according to Arens et al. (2011), can be explained from two perspectives, namely(i) independence in mind and (ii)independence in appearance. The authors assert that independence in mind reflects the auditor's state of mind which allows the audit to be carried out with an unbiased attitude. It reflects a long standing requirement that statutory auditors should be independent in fact. Independence in appearance is the outcome of other people's interpretation of what independence should actually be. Most of the value of audit function will be lost if auditors are independent in fact but users believe them to be advocates for their client.

2.1.3 Auditor's independence and credibility of financial reports

The audit report is the initial point of communication between auditors and the corporate stakeholders. Audit reports should be prepared objectively.Financial statements ought to be audited by an independent and neutral body, considering the growing interest in financial reports and the extent to which they could be trusted by investors and stakeholders. This neutral body is normally the independent external auditors.

Manifestation of auditor's independence

There are three main ways that auditor's independence can manifest itself, namely (i) programming independence (ii) investigative independence and (iii) reporting independence

Restrictions on auditor's independence

When auditors of a company are in conflict with the directors it is important that this conflict is resolved without the auditors losing any of their independence. This can prove to be difficult as auditors earn some a fee from providing a service, which is how they earn a living. This fee is paid by the board of directors – a situation that provides them a vantaged position in the relationship. Therein lies the dilemma as the audit team cannot work to please the directors without losing any of their independence. The problem regarding independence stems from two main sources, namely the auditors' relationship with the company and the nature of the accountancy profession. An auditor earns a living from the fee he is paid it is therefore automatic that does not want to do anything to jeopardize this income.

This reliance on clients' fees may affect the independence of an auditor. If the auditor feels this client income is more important than their responsibilities to shareholders he may not perform the audit with the shareholder's interest in mind. The larger the fee income the more likely the auditor is to shirk his responsibilities and perform the audit without independence.

Reliability and credibility of audited financial statements

Reliability of audit report has to do with a condition in which the investors and all the company stakeholders consistently find the audit reports and opinion about a company's financial statements and position to be both dependable and credible. When audit reports are reliable, they also reveal whether accounting reports are reasonably free from error and bias and whether the accountants are justified in making a 'going concern' assumption. The implication of this is that for the audit report to be reliable it must give investors sufficient information concerning the quality and accuracy of the accounting reports. This being the case, investors can decide on the extent to which to place reliance on the report in making investment decisions.Credibility of financial statements refers to the extent to which investors rely on the information reported in financial statements as a result of the faith or trust the investors have in the financial statements presented to them.

According to Ndubuisi and Ezechukwu (2017), the immediate role of auditor's independence is to make the audit more effective in providing assurance that the auditor will plan and execute the audit objectively. On the other hand,Mitra, Deis and Hossain (2009) contend that the immediate objective of an audit is to improve the reliability of information. Improvement in the reliability of corporate disclosure minimizes the risk that an investor or creditor will make a poor decision simply because the information is inaccurate or wanting in quality. The higher the quality of information that investors and creditors use for the assessment of economic risk is, the better will be their chances of making sound decisions; their information risk becomes lower. According to Saputra (2015), this information risk perceived by investors and creditors is reflected in the hurdle rates of the firms. Both suppliers and users of capital benefit from reliable corporate disclosure. Knechel, Krishman, Pevzner, Shechik and Velury (2012) recognize the fact that the way in which audit independence improves the reliability of information used for investment and credit decision is well understood both in theory and practice. Audit works by deterrence, detection and verification. Being aware that auditors will do their work deters management from distorting the financial results. However, auditors usually detect the majority of distortions that nevertheless occur. Also, the verification of undistorted information by selective tests provides evidence of its reliability (Saputra,2015) . Asthana, Khurana and Raman (2018) demonstrate that auditing improves the reliability of the financial information that investors use while making decisions. Furthermore reliable information is considered to be having some effects on the earnings reported.This is of value relevance to the investors. Earnings per share is equally more likely to reflect corporate earning power if the figures used reflect the substance of financial performance of the bank more closely. In addition, investors are likely to invest their capital in the most productive enterprises if financial reports reflect corporate earning power than if they do not (Saputra, 2015).

According to Carmona, Momparler and Lassala (2015),the auditor's independence is sometimes described as adding credibility to the timeliness of financial report which is an important ingredient of auditing.Literature reveals that, when considered with auditor independence, audit quality affects the confidence level which users of financial statements have in financial reports. Improved reliability is a valid basis for investor confidence in the information made available.

2.1.4 Concept of true and fair view

True and fair view in auditing implies that the financial statements are free from material misstatements and faithfully represent the financial performance and position of the entity.

Although the expression of true and fair view is not strictly defined in the accounting literature, we may derive the following general conclusions as to its meaning: True suggests that the financial statements are factually correct and have been prepared according to applicable reporting framework such as the IFRS and they do not contain any material misstatements that may mislead the users. Misstatements may result from material errors or omissions of transactions and balances in the financial statements. Fair implies that the financial statements present the information faithfully without any element of bias and they reflect the economic substance of transactions rather than just their legal form.

Application and importance

Preparation of true and fair financial statements has been expressly recognized as one of the responsibilities of the directors of companies in the corporate law of several countries such as in the Companies Act 2006 in the UK. Auditors must therefore consider whether directors have fulfilled their responsibility for the preparation of true and fair financial statements when providing an audit opinion. Company law of certain jurisdictions require the auditors to expressly state in their audit report whether in their opinion the financial statements present a true and fair view of the financial performance and position of the entity.

2.1.5 The concept of financial statement

Financial statements are reports prepared by a company's management to prevent the financial performance and position at a point in time. A general purpose set of financial statements usually includes a balance sheet, income statements, a statement of owner's equity and statement of cash flows. These statements are prepared to give users outside the company, like investors and creditors, more information about the company's financial positions. Publicly traded companies are also required to present these statements along with others to regulatory agencies in a timely manner. Financial statements are the main source of financial information for most decision makers. That is

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why financial accounting and reporting places such a high emphasis on the credibility, accuracy, reliability and relevance of the information on these financial statements.

2.2 Theoretical framework

2.2.1 The policeman theory

This theory claims that the auditor is responsible for searching, discovering and preventing fraud. In the early 20th century. this was certainly the case. However, more recently the main concern of auditors has been to provide reasonable assurance and verify the truth and fairness of the financial statements. However,the detection of fraud is still a hot topic in the debate on the auditor's responsibilities. Typically after the events where financial statement frauds have been **re**vealed, the pressure increases on increasing the responsibilities of auditors in detecting fraud**.**

2.2.2 The lending credibility theory

This theory suggests that the primary function of the audit is to add credibility to the financial statements. In this view the service that the auditors are selling to the clients is crdibility. People see audited financial statements as having some elements that increase the financial statement users' confidence in the figures presented by the management in the financial statement. The users are percieved to benefit from the increased credibility. Part of these benefits that the quality of investment decisions improves when they are based on reliable information. Audited financial statements are used by management to increase the principal's faith in the agent's stewardship and reduce the information asymmetry.

2.2.3 The theory of inspired confidence

This is also refered to as the theory of rational expectations.Limperg(1932) addresses both the demand and the supply for audit services. The demand for audit services is the direct consequence of the participation of interested parties of a company in the company. These parties demand accountability from the management, in return for their investments in the company. Accountability is realized through the issuance of periodic financial reports.However, since this information provided by the management may be biased, and outside parties have no direct means of monitoring the company's tramsactions, an audit is needed to ensure the reliability of this information. Concerning the supply of audit assurance,Limperg (1932) opines that the auditor should always make effort to meet the public expectations.

2.2.4 Agency theory (Watts and Zimmerman 1978, 1986a, 1986b)

According to De Angelo (1981), Jensen and Meckling (1976), José and Almeida (2014) and Panda and Leepsa (2017) cited in Wakil,Alifiah andTijjan(2019),agency theory suggests that information asymmetries and conflict of interest between the agents and the principals should theoretically be able to regulate behavior in an organization through directing and rewarding system. This theory postulates that information asymmetry influences objective scrutiny of financial statements as well as agency problems. The principal-agent relationship is explained in agency theory which assumes that the principals lack reasons to believe their agents as a result of information asymmetries and conflicting interest. Thus, information asymmetry during decision making occurs when one party is more informed than the other party. The agency theory provides the theoretical underpinnings to support the position of auditors' independence in bridging information asymmetry gap between principal and agent.

Similarly, contradictory aspects such as financial rewards, market opportunities, and associations with other partiesthat are not directly related to principals can drive agents to be more optimistic about the economic performance of an entity rather than the performance of the whole organization. Information asymmetries and opposing motivations decrease dependability of information, which result in the principals' lack of trust on their agents. Consequently, Colbert and Jahera (2017) suggest that as a third party,auditors should try to align the interests of agents with principals.They should also endeavor to let principals to measure and control the behavior of their agents and to increase the principals' confidence on agents that may negatively influence auditor's independence.

The agency theory suggests that the auditor is appointed in the interests of both the third parties as and the management. A company is percieved as a web of contracts. Several groups (suppliers, bankers, customers, employees etc.) make some kind of contribution to the company for a given price. The task of the management is to coordinate these groups and contracts and try to optimize them.

2.2.5 Signalling theory

Originally developed by Michael Spence in 1973, the signalling theory refers to a situation where one party (termed the agent) credibly conveys information to another party (the principal).It was initially based on observed knowledge gaps between organizations and prospective employees but later extended to other domains. Signalling theory posits that firms with good performance are inclined to making voluntary disclosures more readily beacause doing so is regarded as an easy means of distinguishing themselves from others in the marketplace. Hence this study assumes that auditors' independence is positively related to reliability of financial reports. It is suggested by Scott (2009) that manipulative accounting may be used for signalling since managers will endeavor to window-dress the report in such a manner that it will transmit their desired information to users.

Wallace (1980) proposed three hypotheses for explaining the role of the audit in free and regulated markets,namely the monitoring hypothesis,information hypotheses and insurance hypotheses.

This work is anchored on both the signalling theory and agency theory.

2.3 Empirical review

Several studies have been carried out on the effect of audit independence on reliability.and cedibility of financial report from both developed and emerging economies.

Adebayo(2011) studied the independence of auditors and evaluated the importance of auditors' independence in financial statement . The relevant data collected were analysed using simple percentages and tables and tested using chi-square. The results of the test show that auditor's independence affects the credibility of financial statement and that the improvement in the credibility of the financial statement can reduce manipulation in the financial statement. The study concludes that auditors' independence and the credibility of financial statement are to be significantly impaired when non-audit services are conducted and that there is a positive relationship between independence of an auditor and the credibility of financial statement.This implies that the independence of an auditor is fundamental to the credibility of financial statement.

Knechel, Krishnan, Pevzner, Shefchik and Velury (2012) investigated the impacts of widespread trust and community cooperation on audit fees among different countries in the world. The results of the study reveal that countries with higher trust and community cooperation have high likelihood to spend on a strong audit job to request higher auditing services. They argue that countries with greater trust and community cooperation reimburse higher audit fees to demand greater assurance. This implies that countries with higher extensive trust or greater public cooperation pay higher price on auditing services and hence are prepared to pay higher audit fees.

Okolie (2014) examined the effect of auditors' independence on earnings management. A sample of fifty seven (57) listed companies in Nigeria was adopted by the study for the period ranging between 2006 and 2011. Findings of the study show that audit fee has a negative but significant association with discretionary accruals.

Kabiru and Abdullahi (2012) carried out an empirical investigation into the quality of audited financial statements of commercial banks in Nigeria, using both primary and secondary data. From the population of 21 banks, they select a sample of 5 banks which comprised First Bank, Zenith Bank, Union Bank, United Bank for

Africa and Access Bank that are all publicly quoted companies in Nigeria. Thestudy found that independence of an auditor does significantly improve the quality of audited financial statements of commercial banks in Nigeria.In addition, compliance to auditing guidelines was found to be having positive and significant effect on the quality of audited financial statement of money deposit banks in Nigeria.Also, it was found that material misstatement significantly affects the quality of audited financial statements of money deposit banks in Nigeria. They also found that, if re-audited by other independent auditors, audited financial statements of Nigerian money deposit banks, will give the same result and conclusion.

Okezie and Egeolu(2019) examined the effect of audit independence on reliability of financial reports in the banking sector. Ex-post facto research design was used while the data were elicited from four (4) banks listed on the he Nigerian Stock exchange and also operates within the African region. The data spanning across 5years from 2014-2018, were analysed with multivariate linear regression. Findings show that audit independence had a significant effect on the value relevance of the financial reports of the banks under study. This was reflected in how the amount spent on audit fee had no significant effect on the reported earnings per share(proxy for reliance on financial reports by investors). Further findings reveal that audit independence has an insignificant effect on the timeliness of the financial reports.

Olaoye,Aguguo,Safiriyu and Abiola(2019) investigated the impact of the independence of statutory auditor on the reliability of financial statements of the manufacturing companies in Nigeria. The study adopted a survey research design. It used data collected from a structured online questionnaires which were administered to the shareholders of listed companies in Nigeria. The population of the study comprised all shareholders in Nigerian listed companies, 150 structured questionnaires were randomly distributed from which 137 were retrieved from the respondents. The gathered data were analyzed using descriptive and inferential statistics. For unwavering quality, the Cronbach alpha was used to test the dependability of the instrument. Findings show that independence of statutory auditors had a positive significant effect on reliability of financial statements (RFS) (F= 9.018, Adj. R2 = 0.191, p < 0.05). In addition, it was found that non-financial interest (NFI) had a positive insignificant effect on RFS, AdjR2 = 0.195; F-Stat. = 9.255; P = 0.000. Audit tenure (AT) also had a positive significant effect on RFS, AdjR2 = 0.078; F-Stat. = 3.877; P-value = 0.005. While Non- audit services (NAS) exhibited a positive significant effect on RFS, AdjR2 = 0.118; F-Stat. = 5.568; P-value = 0.000. Based on the findings, the study recommended that audit firms should regulate the number and length of non-audit services rendered to companies they serve as external auditor and also undergo a frequent review on financial statements where their clients have interest so as to reduce self-review and self-interest threat.

Wakil,Alifiah andTijjan(2019) reviewed auditor independence literature and the factors affecting independence in order to determine the effects of the factors on independence. The method employed for the research is a desk system of research design, in which data were collected through secondary sources such as journals, books and internet materials. The finding of the review indicates that the most mentioned threats to auditor independence are non-audit services, audit tenure, auditor-client relationship and client importance.

3. Methodology

3.1 Research design

This study used the survey research design and collected data from the primary source. The data were acquired using well-structured questionnaire to measure the opinions of the respondents cncerning the duties and responsibilities of auditors. The main purpose was to help provide an authentic assessment of the connection between the independence of the external auditor and the credibility of audited financial statements inNigeria .

3.2 Population of the study

The geographical study area for the research is Enugu State The study comprises two (2) sets of population. The first set is made up of the users of the financial statements such as bankers, investors, stockbrokers, and financial analysts, while the second set is made up of the statutoryauditors) in Nigeria.

3.3 Sampling techniques

The study adopted purposive sampling technique to determine our samples for the two sets of population... Consequently, we surveyed 150 respondents in Enugu State.

3.4 Method of data analysis

The hypotheses of the study were tested using the chi-square statistical tool.

$$X^2 = \frac{\sum(Fo-Fe)^2}{Fe}$$

Where
Fo = Observed Frequency
Fe= Expected Frequency
$\sum$ = Summation of all item
X^2 = Chi-Square.
The level of significance is 0.05
The data were processed with the SPSS Statistic

4. Data presentation and analysis

Chi-square test based on 5% level of significance was employed in testing the hypothesis. The decision rule is to accept the alternative hypothesis if the calculated value is greater than the critical value and reject if otherwise.
Chi-square is calculated with the help of the following formula.

$$X^2 = \frac{\Sigma(oij-eij)2}{\Sigma ij}$$

Where eij = represents observed frequency

Σij = represents expected frequency

$$\Sigma = \frac{Number of Questionnaire}{Number of Response}$$

Level of Significance = 0.05
Formula for degree of freedom = n-1
Therefore the degree of freedom DF = 5-1 = 4
Thus, the value of X^2 from that degree of freedom at 5% significance is 9.488
The hypothesis to be tested is:

Hypothesis one

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Table 4.3. Ho$_1$: There is no significant relationship between the external auditor's integrity and the credibility of audited financial statements in Nigeria

S/N	Responses	No. of Respondents	% of Respondents
1	Strongly Agree	30	38
2	Agree	38	47
3	Undecided	3	4
4	Disagree	9	11
5	Strongly Disagree	-	-
		80	100

Source: Field Survey, 2020

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Table 4.3.2

Degree of Freedom = 5 – 1 = 4

Observed	Expected	o – e	(o - e)^2	(o - e)^2/e
30	16	14	196	12.25
38	16	22	484	30.25
3	16	-13	169	10.56
9	16	-7	49	3.06
-	16	-16	256	16
80				72.12

Source: Field Survey, 2020

At 5% it is 9.488

Decision Rule

If the calculated x^2 is less than the critical value (i.e. The value of x^2 from the table) accept the null hypothesis and reject the alternative and if the calculated $x^2$is greater than the critical value the alternative hypothesis will be accepted and the null hypothesis rejected.

Since computation of x^2 which is 72.12 is greater than x^2 critical at 9.488, therefore the null hypothesis (H_0) is rejected while the alternative that hypothesis H_1 is accepted. This means

that there is a significant relationship between the external auditor's integrity and the credibility of audited financial statements in Nigeria.

Hypothesis Two

Table 4.3.3 Ho$_2$: An objective approach to the external audit process is not significantly connected with the credibility of audited financial statements in Nigeria

S/N	Responses	No. of Respondents	% of Respondents
1	Strongly Agree	30	37
2	Agree	33	41
3	Undecided	11	13
4	Disagree	6	18
5	Strongly Disagree	-	-
Total		80	100

Source: Field Survey, 2020

Table 4.3.4: Analysis of Questionnaire based on Hypothesis 1

Observed	Expected	o – e	(o - e)^2	(o - e)^2/e
30	16	14	196	12.25
33	16	17	289	18.06
11	16	-5	25	1.56
6	16	-10	100	6,25
-	16	-16	256	16
80				54.12

Source: Field Survey, 2020

Decision Rule

If the calculated x^2 is less than the critical value (i.e. The value of x^2 from the table) accept the null hypothesis and reject the alternative and if the calculated $x^2$is greater than the critical value the alternative hypothesis will be accepted and the null hypothesis rejected.

Since computation of x^2 which is 54.12 is greater than x^2 critical at 9.488, therefore the null hypothesis (H_0) is rejected while the alternative that hypothesis H_1 is accepted. This means that an objective approach to the external audit process is not significantly connected with the credibility of audited financial statements in Nigeria

4. Conclusion

The aim of this study was to examine the nexus between the independence of the external auditor and the credibility of audited financial statements inNigeria.Specifically, the study sought to find out if there is a significant relationship between the external auditor's integrity and the credibility of audited financial statements in Nigeria andn whether an objective approach to the external audit process is significantly connected with the credibility of audited financial statements in Nigeria. Survey research design was employed while Chi-squared technique was used for analyzing the data.The data used for this work were collected using a well-stuctured questionaire collected from 150 users of audited financial statements in Enugu State. The results of the study indicate that there is a significant relationship between the external auditor's integrity and the credibility of audited financial statements in Nigeria. The results of the study also reveal that an objective approach to the external audit process is significantly connected with the credibility of audited financial statements in Nigeria. The results of this study are in agreement with those of Okolie (2014) and Okezie and Egeolu(2019) It recommends that auditor's independence should be strengthened by taking different measures such as reduction in the tenure of auditors,regular rotation of auditors and appropriate audit fees in Nigeria.

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