

JOINT AUDIT AND AUDIT QUALITY: A REVIEW OF LITERATURE

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Abstract

The study is a review of the literature on joint audits and audit quality. The study adopts the library-based methodology which essentially entails a review of extant literature as the basis for understanding the research issue and reaching necessary inferences. The review of literature has shown that the debate on joint audits in improving audit quality is still very contentious. Firstly, there is a paucity of joint audit literature. There is a possibility that the limited number of required joint regimens is a contributing factor to the absence of adequate previous evidence. Secondly, it was observed that only few studies have been conducted by Nigerian authors with divergent results using different theoretical framework and methodologies. Given the prevalence two contending perspectives in the debate as to whether joint audits should be a mandatory prerequisite or remain a voluntary practice for listed companies, the study suggests an empirical investigation to address this unending debate.

Introduction

In recent times, a number of audit reforms have been carried out with the aim of restoring the confidence of investors whose trust in the capital markets were dented owing to the window dressing of accounts and corporate accounting scandals in Nigeria such as Oceanic Bank, Cadbury, Intercontinental and Fidelity Bank (Enofe, Mgbame, Otuya & Ovie, 2013; Nicole, Sophie, Jaana, & Cedric, 2012). Examples of such reforms are the Security and Exchange Commission (SEC) code (2003) and the Sarbanes-Oxley Act of 2002 geared towards strengthening auditor independence and by extension enhance audit quality. There is also the 'green-paper' issued by the European Commission (EC) in 2010 which recommends the mandatory implementation of joint audit as a way of enhancing audit quality and promoting audit market dynamics in European corporations (Okaro, Okafor & Ofoegbu, 2018). According to Ajaegbe (2018) the Institute of Chartered Accountants of Nigeria (ICAN) as a foremost accountancy professional body in Nigeria has also established a case for the promotion of joint audit in Nigeria as a means of raising the quality of financial reporting.

In Nigeria, joint audit has remained a voluntary practice in spite of the opposition by the Big Four audit firms and other powerful stakeholders in the

accounting industry to fight against its mandatory implementation (Okaro, et al, 2018). The Financial Reporting Council of Nigeria (FRCN) and the Institute of Chartered Accountants of Nigeria (ICAN) have recommended joint audit as a way promoting the quality of financial reporting and strengthening the independence of the auditors (Jinadu, Ojeka, & Agbeyangi, 2015). In view of this, companies that are listed on the Nigeria Stock Exchange (NSE) are at liberty to engage more than one auditing firm to examine their financial reports. The global adoption of joint audit by both developing and developed economics as well as the debates surrounding making it a mandatory requirement for companies that are listed in Stock Exchanges, that have activated the widespread academic research interests on the concept of joint audit and its effects on audit quality. For instance, the oligopolistic nature of the audit market in Nigeria is gradually relegating other smaller audit firms out of the market for audit services (Ajaegbu, 2014).

Ilaboya, Izevbekhai, and Ohiokha (2017) in their study state that just about 3% of listed firms in Nigeria adopt the use of joint auditors while about 80% of publicly listed firms are audited by the Big Four audit firms. On the other hand, the issue of joint audit, which can be thought of as a more structured arrangement aimed at improving audit quality, has been brought to the forefront of discussion. In a joint audit situation, two audit firms simultaneously and separately audit the same company in order to sign a single audit report (Deng, Melumad, & Shibano, 2014). Despite the fact that it is not necessarily a new concept, it does not appear to have gained widespread acceptance in the auditing profession around the world.

In an unusual twist, the twin issues of concentration and joint audits have even been discussed as if they have a relationship with one another. The fact that a joint audit instrument has been espoused for overcoming market dominance, even though this is not the primary focus of the research, is nonetheless noteworthy, and the practice of joint audits is considered as a substitute audit reform to reduce audit market concentration and, ultimately, to improve audit quality is also worth mentioning (Velte & Azibi, 2015). A mandatory joint audit policy was proposed by the European Union in 2010 in order to address the problem of excessive market concentration. A contentious discussion ensued, and as a consequence, the EU modified its plan, but it continues to push for joint audits (Guo et al., 2017). Policymakers believe that if EU policy had been successful, it would have resulted in a substantial decrease in the autonomy enjoyed by the Big 4 audit firms and would have gone a long way toward levelling the playing field between big and small audit companies. In spite of its revocation, the policy was warmly received by 2nd Tier accounting firms,

who claimed that collaborative auditing would help to decrease audit market concentration (Guo et al., 2017). We believe that the French joint-audit system is successful in reducing the dominance of the Big 4 in the long term, and our primary results corroborate this perspective.

In light of the above, this article examines the literature on the connection between joint audits and audit quality in order to get a better understanding of how and by what mechanisms joint audit arrangements, whether in a required or voluntary context, may have an effect on audit quality.

Literature Review

Audit Quality

There is a plethora of literature on the definition of audit quality. One major factor in all the definitions is that audit quality is viewed in terms of the credibility of the work of an external auditor who has been engaged to examine the books of accounts of a company in order to ascertain its true and fair view. A careful examination of the previous relevant research showed that the word "audit quality" may be described in a variety of ways (Ojala, Niskanen, Collis, & Pajunen, 2014). Much of audit quality literature, according to Iswerdew (2016), is derived from DeAngelo's (1981) definition, which describes audit quality as the likelihood that an auditor will both find and disclose a violation in the client's accounting system. Finding a misstatement evaluates the quality of the auditor's knowledge and skills, while reporting the misstatement is dependent on the auditor's motivations to reveal the mistake. The distinctive aspect of this definition is that it draws attention to two characteristics of audit quality: the likelihood of detection and the likelihood of reporting.

According to DeAngelo's point of view, the detection of fraudulent occurrences and the reporting of such cases demonstrates the auditor's independence. It is thus feasible to define audit quality as a rise in the auditor's capacity to identify accounting distortions as well as an increase in the ability and independence of auditing as assessed by the market. It seems that DeAngelo (1981) defined the auditor's function primarily in terms of detecting and reporting fraud, which is consistent with our understanding. This is a significant shortcoming of DeAngelo's definition, as Barghathi, Ndiweni, and Lasyoud (2020) have pointed out, since it solely depicts auditing as a binary process of detecting and reporting breaches. Audit quality encompasses much

more than simply the basic identification and reporting of breaches; in fact, it encompasses a wide range of activities (DeFond & Zhang, 2014).

Following this first description of DeAngelo, many other definitions have developed, each of which contributes to a more complete conceptualization of the topic. For example, DeFond and Zhang (2014) view it in terms of the guarantee that the pertinent information relating to a firm's primary financial and economic position, it's the firm's distinctive characteristics and financial reporting practices staunchly represent the true position of financial statement. DeFond and Zhang further explain that how an individual perceives audit quality is largely dependent on the way by which such individual sees the audit quality concept. As a result, the auditors' compliance with auditing standards is critical in this definition, and once this is accomplished throughout the course of the audit, the audit quality is attained. A scenario in which financial statements include no major distortions is characterized as audit quality, according to Audousset-coulier (2015). The quality of the audit system, which is a critical component of financial reporting, has the potential to substantially enhance the reliability of corporate reports. Furthermore, in the opinion of Alfraih (2016), improved audit quality will increase the value significance of information in the financial statement.

A major proxy of operationalising of audit quality is the tendency to clearly make a statement on the going concern assumption (Geiger & Raghunadan, 2002; Carey & Simnett, 2006). The measurement of audit quality is generally seen as complex due to the fact that the assurance auditors make available is difficult to be observed (Defond & Zhang, 2014). However, a number of proxies have been frequently adopted for gauging audit quality ranging from the input-based measure to the output-based method (Kallapur, Sankaraguruswamy & Zang, 2010; Defond & Zhang, 2014). The output-based measurement method of audit quality has been adopted in some literatures as specified above. Nevertheless, the measure is limited by the company's system of financial reporting and distinctive characteristics. One of the means of deducing audit quality is to ponder on the end result of the audit course. Output based procedures have a tendency to regulate the amount of audit quality essentially delivered. On the other hand, the input-based method of measurement assesses audit quality through the use of noticeable inputs to the audit course. However due to the fact that inputs might not translate directly to outputs, the method is comparatively raucous audit quality procedures. This measurement proxies do not take cognisance of auditor misconduct; hence is considered as based on actually observed features

Joint Audit

To put it simply, joint auditing is a process in which two separate audit firms audit the same client in accordance with a previously agreed-upon pricing model and structure (Barghathi, Ndiweni, & Lasyoud, 2020). In addition, Deng et al. (2014) describe joint audit as a scenario in which two audit firms concurrently and independently examine a business in order to sign a single audit report on their findings. This does not imply that each accounting firms will conduct a separate audit of the full financial statement. Quite the opposite, the job is divided up between the two accounting companies (Iswerdew, 2016). Each company has the same mindset and view on the audit, which indicates that the two audit companies are also sharing the same level of responsibility as well (Ratzinger-Sakel et al., 2013; Holm & Thinggaard, 2016). A joint audit may be described as an audit in which two independent auditors are jointly responsible for the audit report, as opposed to a single independent auditor. (2012); (Cédric, Sabine, and Jaana, 2012); (Cédric, Sabine, and Jaana, 2012).

In an audit market where the audits of publicly traded businesses are controlled by the dominant four auditing firms, one of the reasons made in favour of more joint audit agreements, particularly in Europe, was the need to encourage more diversity in the auditing industry (Ratzinger-Sakel et al., 2012). In a bid to reduce audit market concentration, governments have explored adopting joint audits, at the very least for public interest organizations. As a result, joint audits have been proposed in many countries (Paunescu, 2015). In countries where joint auditing is required, such as France, there is a compelling argument for joint auditing between the dominant audit companies and a smaller audit firm, since this may be the only method of accomplishing the stated aim of reducing concentration while yet maintaining independence.

It is not possible for a single auditor to make significant judgments in a joint audit, according to the authors of Baldauf and Steckel (2012). Concentrating the attention of two auditors on a single issue improves both the efficiency with which problems are solved and the quality of the findings. The duties of the auditors cannot be separated, and neither auditor is permitted to depend on the work of the other auditor. More precisely, both teams must first agree on the duties that each auditor will do, and then they must agree on a cross-checking process that allows each audit team to verify the findings and work of the other by examining their respective working files. Both teams are capable of working together on the most delicate problems. Any differences

of opinion between the two auditors should be resolved before the release of external auditor's report. In addition, once the audit report is published, both auditors are equally and separately answerable for the correctness of their judgment (Cédric et al. 2012). As a result, one of the most important characteristics of a joint audit is the provision of intensive mutual supervision by the auditors.

It is important to note that a joint audit should does not imply same concept as a double audit (which refers to audit work that has been completed twice) or a dual audit, which are two different things (In which two separate audit reports are published). Furthermore, this type of audit differs from the audit in which the two partners of a single audit institution sign an audit report, which is another type of audit (Fatemeh, 2018). Furthermore, Razinger-Sakel, Audosset-Coulier, Kettumen, and Lessage (2013) pointed out that double auditing is described as a situation where same company is audited twice; each audit firm accomplishes the work independently and issues its own view on the results. Similarly, it is also important to differentiate between dual auditing and joint auditing, because in the dual auditing process, each auditor reviews a explicit part of the audit and expresses his or her views on that specific part of the auditing process (Barghathi, Ndiweni, & Lasyoud, 2020).

Proponents of joint audit contend that it improves the independence of the auditor since it is much more difficult for a corporation to weaken the independence of two audit firms in a joint audit than it will be for a single audit firm. In the case of a joint audit, it is also a requirement for the report to be signed together by both audit firms, an obligation before it can be published (Iswerdew, 2016). As a result, since the business would have to pay two audit firms instead of one, compromising auditor independence would be more expensive for the company in the long run (Deng et al., 2014). In support of joint audits, the most persuasive argument is that they improve audit quality because joint auditors have the ability to address two fundamental criteria of audit quality: auditor competence and independence. For starters, when audit process choices and judgments of partners are benchmarked against a jointly-liaible partner, it is anticipated that the quality of the decisions and judgements would be better, while in solo audits, there is less need to explain one's judgments and decisions to others (Iswerdew, 2016). Aside from that, previous research has consistently shown that more experience and skill are linked with better performance (Brown & Johnstone 2009; Chin & Chi 2009). A potential benefit of having two engagement partners with complementary experience and knowledge is that the quality of judgements and choices may be improved (Ittonen, 2011).

Although the “Big4” audit firms and other interest groups opposed its mandatory implementation “as proposed by ICAN and the Financial Reporting Council of Nigeria (FRCN), it has remained a voluntary practice as they preferred. However, the culture of joint audit is not a new phenomenon in Nigeria (Okaro, et al, 2018). Because of this, publicly traded businesses and shareholders who believe it is appropriate engage more than one audit firm to examine their financial statements to ensure that they are accurate (Jinadu, Ojeka, & Agbeyangi, 2015). It is as a result of the increasing number of joint audits being implemented by different countries, as well as the controversies surrounding the implementation of joint audits as a mandatory requirement for publicly traded companies in Nigeria, that there has been a significant increase in academic research interest in the concept of joint audit and its effects on the firms that have adopted it. According to Ajaegbu (2014), the oligopolistic nature of the audit market in Nigeria is gradually driving smaller audit firms out of the audit services market. Ilaboya et al. (2017) found that only about 3 percent of publicly traded companies use joint auditors, and that approximately 80 percent of publicly traded companies are audited by the Big4 audit firms. The implementation of a required joint audit regime may therefore help to the promotion of compliance with the Local Content Act of 2010 by providing the smaller audit firms with the much-needed chance, thus alleviating the burden on the Big4 audit companies.

Okaro & Okafor (2013), Asien (2014), Olowookere (2016), and Olugbenga et al. (2016) examined whether the introduction of mandatory joint audits would result in improved audit and earnings quality of listed companies in Nigeria. Despite the fact that the research was unable to create such a connection, it advocated voluntary joint audits in Nigeria for a variety of reasons, including improved opportunities for the development of small and medium-sized accounting practices in Nigeria (Asien, 2014).

Joint audits and the Quality of the Audit

The nexus between joint audits and audit quality is still a developing field of accounting research, and the results of the existing research show characteristics of inconclusiveness while yet being insightful at the same time. There are at least three theoretical reasons in favour of a positive connection between joint auditing and audit quality, according to the literature. One reason is that when two separate audit institutions collaborate on a joint audit, the audit expenses and advisory services are shared between them. As a consequence, the two audit institutions may be in a better position to withstand pressure from directors and control from the company's owners.

So, their opinions seem to be more impartial in the audit report as a result of this. Because of the ability to perform benchmarking of the process with the other auditor, the joint audit procedure becomes more accurate than individual audit (Khalid, Hussein, and Ayad) (2019).

Second, one of the audit companies may gain knowledge from the other while the other is still in operation. In example, improving the competency of the audit company may help to retain its customer base and revenue (Fatemeh, 2018). The high degree of client knowledge gained by each partner in a joint audit provides for the highest possible quality in auditing and financial reporting. Furthermore, sharing expertise and knowledge helps to enhance the execution of the audit job as well as the quality of the judgment (Brown & Johnstone 2009; Chin & Chi, 2009). Finally, as compared to a single audit company, it is less probable that both audit firms would simultaneously agree to the client's request for nonreporting of found instances on the basis of the client's request (Fatemeh, 2018).

On the other side, there are other arguments that suggest that the connection will take a bad turn in the future. The possibility of this occurring arises when there is a lack of adequate information sharing between the two audit institutions throughout the joint audit process. When two auditing businesses collaborate on a joint audit, information is shared between them. However, when two auditing organizations compete for market share in the same year, the information exchange between them may be less than the two auditing companies had hoped for. In a joint audit environment, the rivalry among auditors provides incentives to “please” the customer by exceeding his or her expectations. There is also the “free-rider” problem, which occurs when one auditor depends on the work of another auditor, resulting in a reduced dependability of the audit evidence, which occurs more often in situations when a technologically less efficient company (a small audit firm) is selected (Okaro, Okafor, & Ofoegbu, 2018).

The actual evidence has been as varied as the theoretical perspectives on which it has been based. However, in a joint audit environment that is obligatory, it has not been possible to demonstrate a connection between audit quality as well as joint audit (Holm & Thinggaard, 2011; Lesage et al., 2012). Joint audit in voluntary joint audit settings, on the other hand, has been shown to result in better real and perceived audit quality, at least according to some empirical data (Zerni et al., 2012). As previously mentioned, there is some empirical evidence that collaborative audits result in increased expenses, with some studies finding that audit costs are greater in joint audits (André et al., 2012; Holm & Thinggaard, 2011; Lesage et al., 2012). Okaro,

Okaro, and Ofoegbu (2015) conducted an investigation on the effect of joint audits on the quality of audits. In their research, they looked at the views of Nigerian accountants, auditors, and academics working in the area of accounting and financial management. As a result of their research, they discovered that in the instance of Nigeria, joint audit is considered to have a favorable effect on audit quality and financial reporting, with participants stating that "four eyes are better than two.

Despite the fact that a joint audit is linked with higher fees, the advantages exceed the expenses, and joint audits may also help to reduce the danger of overfamiliarity with the client. In the instance of publicly traded French and German businesses, Velte and Azibi (2015) found that joint audits had no substantial effect on audit quality between 2008 and 2012. Their results showed that joint auditing did not improve audit quality or market concentration in either France or Germany, regardless of the country in which it is conducted. Furthermore, in the case of Italy, similar research was carried out by Biscogno and De Luca (2016), which investigated if joint auditing improved the quality of financial statements produced by a company. The researchers investigated the relationship between joint auditing and the frequency of tiny positive profits, which may be ascribed to earnings management techniques and be an indication of low earnings quality, in their research. They verified that the joint audit method has an impact on the quality of profits and the dependability of the financial statements of companies.

Barghathi, Ndiweni, and Lasyoud (2020) investigated auditors' views of joint audits and whether or not they can enhance audit quality as a result. For this purpose, volunteers were recruited from the Big 4, non-Big 4, and other shareholders, among other sources. The research team also looked at how the perceptions of the same stakeholders affected the view of how audit concentration affected the audit market in the United Arab Emirates. The findings of the research showed that people had differing opinions on joint audits. Joint audits are examined in this paper by Okaro, Okafor, and Ofoegbu (2018), who also examine the perceptions of stakeholders (Nigerian accountants, auditors, and accounting academics) as an important determining factor in determining whether Nigeria's government should make joint audits compulsory. According to the results of a Likert-type questionnaire administered to accountants, auditors, and accounting professors in Nigeria, Simple percentages and independent t-test statistics were used to evaluate the responses to the questions. Clarifications were also requested from partners of accounting companies, according to the report. The findings of the

research showed that there was minimal consensus among stakeholders on the desirability of mandatory joint audits in Nigeria, despite widespread agreement that the advantages outweighed the expenses associated with them.

Iswerdew (2016) investigated the connection between joint auditing and audit quality throughout the course of the study period 2013 to 2015. It has been shown by using two datasets of companies from France and the Netherlands that collaborative auditing does not result in improved audit quality. Furthermore, the findings demonstrate that non-audit service (NAS) costs do not have a negative impact on audit quality. The research concludes that audit fees are not higher for businesses audited by a joint audit team than they are for companies examined by a single auditor, according to the findings.

Conclusion

A review of the literature in the areas of joint audit and audit quality is the focus of this research. The study employs a library-based approach, which involves primarily a review of existing literature as the foundation for comprehending the research problem and drawing the required conclusions from that literature review. According to the findings of the literature, the argument over the merits of joint audits, particularly in terms of increasing audit quality, is still extremely hotly contested. There is a significant divergence of opinion on joint audits, primarily between big 4 auditors who believe that they will result in increased audit costs without necessarily adding incrementally to audit quality and others who believe that the Big Four audit firms are constituting an oligopolistic situation which is considered unhealthy. Despite the fact that the concept of obligatory joint audit has become increasingly unpopular, only approximately nine nations have adopted mandatory audits at some point in their history, and therefore it seems that voluntary joint audit is currently regarded the mainstream notion.

However, it is difficult to predict to what degree a voluntary regime would be able to assist in achieving the anticipated benefits of joint audits in the long run. As a result of the optional setting, publicly traded companies will now have the option of using joint audits or refraining from doing so.

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