The Effect of the Internal Audit Outsourcing on Auditor Independence: The Nigerian Experience

Ofe Iwiyisi Inua Ph.D
School of Management Sciences, National Open University of Nigeria
ofejobs@yahoo.com

Emmanuel Umo Abianga
School of Management Sciences, National Open University of Nigeria

Abstract
In recent times, accounting firms are showing more interest in the provision of Internal Audit Services to their audit clients. The outsourcing of these Internal Audit Function (IAF) is advantageous to both the audit firm and the audit client. But, there are a number of problems envisaged and the major one is impairment of Auditors independence. This study is an empirical one that considers Audit Independence and Internal Audit outsourcing. The paper looks at the reason for outsourcing and the benefits and problems of outsourcing the IAF. A five-point Likert scale was prepared and sent out to the public testing their perception of the effect of internal audit outsourcing on auditors’ independence. The Analysis of Variance (ANOVA) technique was used to analyze responses from the questionnaire. Results from this analysis show that there is significant different in the perception of auditors independence when they perform full IAF, partial IAF, another audit firm performs the IAF, a separate department within the same audit firm performs the IAF. This result indicates that auditors will not be perceived to be independent if they provide internal audit services to organizations. But, since this practice is already in existence in other parts of the world, we feel that it will definitely be practiced in Nigeria. It was therefore recommended that when taking up this responsibility, the external auditor should not act or appear to act as a member of management or as an employee of the client and external auditors should ensure that the client’s board of directors and/or audit committee are informed of the roles and responsibilities of both management and external auditor.

Keywords: Internal audit function, outsourcing, auditors independence, external auditor, audit client.

INTRODUCTION
Fierce market competition has led many organizations to reconsider what they do best, and to concentrate on their core competencies. ‘Support’ activities such as building security and maintenance which do not directly contribute to revenue may therefore be outsourced (Jiang & Peursem, 2006). Outsourcing, while common generally in the business environment, is controversial and not always advised for internal audit. Independence as well as whether outsourcing is beneficial are some of the issues raised about outsourcing (Haylock, 2006:).

Over the years, the internal audit (IA) function has evolved from the traditional ‘watchdog of controls’ to a value-added business function. The America Institute of Internal Auditors (IIA) defines IA as ‘an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organisation’ (Marvine & Livine, 2000). While the IA function has traditionally been performed in-house, there is increasing trend to outsource IA activities (Rittenberg, Moore & Covaleski, 1999). Traditionally, the internal auditing function has been designed to help ensure reliable accounting information and to safeguard company assets. More recently, internal auditing has evolved to encompass operational auditing, risk assessment, IT assurance services and more. This expanding role has increased the importance of internal auditing as part of the organization’s management control structure. But, it has also changed the demands being put on internal auditors. Their new role requires different skills and competencies, and many organizations need to face the choice whether to develop these providers (Ahlawat & Lowe, 2004; Widener & Selto, 1999). A survey of 1300 internal audit directors in North America shows that 25% of U.S and 31.5% of Canadian organizations outsource their internal audit function (Marvine & Lavine, 2000) and researches show that accounting firms have found the provision of internal audit services to be a lucrative market (Rittenberg & Covaleski, 1999). Aldhizer, Cashel & Martin (2003) estimate that potentially, an accounting firm’s revenues from internal audit services can be up to ten times that of annual financial statement audits. But, regulators and critics of the profession contend that the provision of these services threatens auditor independence (Earnscliffe Research & Communications, 1999).

According to Shapoff (1999), the most commonly cited reasons for outsourcing the IA function include cost savings, purchase of more technologically competent expertise, improved risk coverage, avoidance of investment in a non-core operation and consequently, improved organizational performance. Also, accounting firms justify their presence in the market for internal audit services by stressing their sophisticated expertise, flexibility and cost effectiveness (Caplan & Kirschenheiter, 2000). A more recent study by
Subramaniam, NG & Carey (2004) investigated IA outsourcing practices in public sector agencies, and found that the main reasons for outsourcing include to gain technological know-how and to gain better service quality rather than for financial reasons. But, Martin & Lavine (2000) stated that the reason for not outsourcing relate to inefficiencies created through external providers’ behavior. Martin & Lavine (2000) in challenging IA outsourcing stated that internal auditors emphasize the importance of in-depth, organization-specific knowledge, loyalty and their role in handling crisis situations and fraud prevention.

These outsourced internal audit functions are offered by accounting firms to their audit and non audit clients. With each new service offered to audit clients, concern over the auditors’ independence deepens (James, 2001).

OBJECTIVE OF THE STUDY
The objective of this paper is to determine the general perception of audit independence when IAF is performed by external auditor. Specifically, this study intends to find out if there is any significant difference in the perception of auditors’ independence when:

- External auditors provide full internal audit services;
- Internal audit is partially outsourced to external auditor;
- Internal audit services are provided by different audit firms;
- Internal audit services are provided by staff of separate division within the same audit firm handling the external audit.

INTERNAL AUDIT FUNCTION
The growth of the IAF as a practice and profession, and it impact on the external financial audit has been brought forth partially by legislation. For example, the Foreign Corrupt Practices Act of 1977 (FCPA) mandates that public companies maintain adequate internal control systems, and the commission on Fraudulent Reporting (the Treadway Commission) recommends that all public companies should establish an IAF (NCFRR 1987). The Committee of Sponsoring Organisations of the Treadway Commission (COSO) views the IAF as performing an important role in monitoring entities internal control system (James, 2001).

Internal auditing is not just about compliance anymore, it is about companies succeeding and preventing fraud and abuse (Herdman, 2002). One change that has enhanced the role of the internal auditor is the requirement in Section 302 of Sarbanes Oxley (SOX) Act that a firm’s certifying officers (typically the Chief Executive Officer and Chief Financial Officer) must state that they are responsible for establishing and maintaining internal controls over financial reporting. As part of this certification, they must also indicate that the internal controls were designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Generally Accepted Accounting Principles (GAAP) in the United States. These section 302 certifications are required to be included with the firm’s annual financial statements. Section 404 of the SOX Act also increased responsibilities of internal auditors. This section requires that management include, in the firm’s annual financial statements a report on internal controls. The report must indicate that management is responsible for establishing and maintaining internal controls over financial reporting and management’s conclusions regarding the effectiveness of those internal controls (Encyclopedia of Business, 2010).

Apart from the financial audit, the internal auditor performs a compliance and operational audit. A compliance audit assures that the company’s activities comply with relevant firm laws and regulations. An operational audit explores the effectiveness and efficiency of the firm’s activities, seeking to reduce the risks faced by the specific firm. In performing an operational audit, performance standards may include a variety of criteria other than monetary measures, such as the percentage of late deliveries or idle labor time. It is the responsibility of the internal auditor to determine appropriate measures on the basis of experience and insight into the integrated function of the company’s activities (Encyclopedia of Business, 2010). The scope of internal auditing, which had traditionally focused primarily on financial accounting issues, widened considerably during the last three decades to encompass almost every aspect of an organization (James, 2001).

Responding to such legislation, and the availability of a prestigious IA certification, the proportion of organizations that maintain IAFs increased significantly and already existing IAFs tended to become more involved in and more important to the overall effectiveness and efficiency of the organization they serve. As a result of SOX, and in the U.S., internal audit budgets and staffing levels increased by over 10% on average from 2001 to 2002, and internal audit meetings with the audit committee increased in frequency and length by over 25% on average (Carcello, Hermanson & Raghunandan, 2005). Internal auditing provides a broad based, independent, value-adding function that is essential for the effective management of a firm.

The need for and advantage of increased external-internal auditor cooperation during a financial statement audit can be seen as a logical and natural development. The internal auditor may represent a highly efficient partner to the external auditor due to the internal auditor’s in-depth familiarity with total operations of
the entity. Effective utilization of IAFs by the external auditor appears to have increased significantly during the past decade as evidenced by research conducted by the AICPA (1998) and Oliverio & Newman (1991).

JUSTIFICATION FOR OUTSOURCING
There has been competition among accounting firms and the merger activity of the 1980s and 1990s has led to the stagnation of auditing revenues. So, in an effort to maintain growth and profitability, auditing firms have sought alternative sources of revenue by offering various types of professional services including internal audit, risk management and a variety of assurance and consulting services (Chewning, 2001). Between 1982 and 1988, revenues from Non Accounting Services (NAS) increased by an average annual rate of 3.8% reaching 53% of total revenues in 1988 (Read & Tomczyk, 1992). At the same time, revenues from audit services have stayed fairly constant in a basically mature market. Levitt (2000) reports that audit services represent only about 30% of the largest audit firms total revenues. Regulators and critics of the profession contend that the provision of these services threaten auditor independence (Earnscliffe Research & Communications, 1999).

In the interest of efficiency and improving profitability, companies have turned to outsourcing internal audit services (Kurtzman, 1996; Berton, 1996). The number of firms that outsource is substantial. In a survey of more than 1,300 responding organizations, Kusel, Schull & Oxner (1997), found that 21% of U.S. organizations and 31% of Canadian organizations outsourced at least a part of their internal audit function. In both the U.S and Canada, approximately 10% of the organizations outsourced the entire internal audit function. Of the organizations not currently outsourcing, more than 30% indicated their expectation to do so in the future. These numbers imply that the incidence of internal audit outsourcing is significant. Many accounting firms now provide internal audit services including Nigeria big accounting firms such as KPMG and Price water house Coopers.

The idea of outsourcing organizational activities traditionally performed within the organization is not a new one. Drucker (1995) envisioned future business as one in which the majority of work would be contracted out to non-employees. According to Davis (1992) outsourcing originated from Adam Smith’s parable “the tailor does not tend to make his own shoes, but buys them at the shoemaker”. It is assumed that business success calls for organizations to renew their focus on core business activities and contract out those internal supporting but nonessential jobs to external expertise (Jiang & Peursem, 2006). Van Peursem & Wells (2000) defines outsourcing as the introduction of expertise into a firm by means of contractual obligation other than direct employment, which may involve temporary contractual arrangements with expert individuals, long term contractual relationships or the use of externally developed electronic knowledge expert systems.

For external auditors, the knowledge obtained while performing internal audit activities can increase the efficiency of the annual independent financial statement audit. For example, the internal control knowledge obtained while performing internal audit services should reduce the amount of work needed to document internal controls, access control risk, and design tests of controls. It should also enhance the auditor’s awareness of specific client related risks. This would help in planning effective and efficient substantive audit program and should assist with detecting fraudulent financial reporting (Aldhizer & Cashell, 1996). For companies, outsourcing the IAF offers potential cost benefits. Internal audit outsourcing may reduce overlapping positions and audit effort by creating more flexibility in increasing and decreasing workloads. Additionally, outsourcing allows a company replace “fixed” cost employees with “variable” fees for services. Finally, a wide range of expertise is available from large firms that would be too expensive for a company to maintain internally (Aldhizer & Cashell, 1996).

Internal audit professionals have been very critical of outsourcing and point to independence and competency issues (Gibbs & Courtemanche, 1994; Acciani, 1995). They believe that internal auditing is best performed by an independent entity that is an integral part of the management structure of an organization. This argument follows that the internal auditor’s role is necessarily a management function. Performance of such functions by the external auditor is alleged to impair the perception of auditor independence and pose a serious threat to actual independence.

In 1996, the American Institute of Certified Public Accountants (AICPA) responded to this public criticism by issuing new interpretations of Rule 101 of the code of Professional Ethics. The new guidance reaffirmed that independence would not be impaired as long as the auditor does not act in a capacity that is equivalent to that of a member of management or as an employee (Anderson, 1996).

AUDITORS INDEPENDENCE
Auditor independence has been termed the cornerstone of the auditing profession, since it is the foundation for the public’s trust in the attest function (Caswell & Allen 2001). Auditor independence helps to ensure quality audits and contributes to financial statement users’ reliance on the financial reporting process. The Securities and Exchange Commission (SEC, 2000), refers to the external auditor as the ‘gatekeeper of the public securities markets”. Agency theory research identifies the external audit as a monitoring device that reduces an entity’s
agencies, the negative publicity the auditing profession has received. Enron outsourced its internal audit function, especially auditor independence, previously prompting the Securities and Exchange Commission (SEC, 2000). Further, given recent changes to the rules and guidelines governing independence, the definition of “factual” independence has changed.

Because the goal of auditor independence is to support user reliance on the financial reporting process, auditors must be independent both “in fact” and “in appearance”. Actual auditor independence is a mental state, and is in essence embodied in an individual auditor’s mind. Accordingly, it is impossible for investors and other users of financial statements to accurately assess actual auditor objectivity (McGrath et al. 2001). Therefore, users of financial statement information can only evaluate an auditor’s appearance of objectivity. Thus, even when an auditor in fact acts independently and issues an unbiased audit opinion, if investors and other users of the financial statement information do not believe that the auditor is independent, investor confidence is eroded and capital market efficiency will suffer. Even a relatively small loss in investors’ confidence may have a relatively large economic impact by increasing investors required rate of return, which raises the cost of capital (SEC, 2000). Further, given recent changes to the rules and guidelines governing independence, the definition of “factual” independence has changed.

It is evident then, that independence is socially defined. While independence “in fact” and “in appearance” are required to achieve the goal of Independence, specific expectations may have been altered by the Enron debacle and the negative publicity the auditing profession has received. Enron outsourced its internal audit department to Andersen in 1993. The accounting firm then hired 40 members of Enron’s internal audit staff. The firm also hired Enron’s internal audit director at a significantly higher salary to continue to oversee the internal audit function. (Andersen later discontinued internal audit outsourcing services, after Enron decided to reestablish a full-time, in-house internal audit department. At minimum, the magnitude of these revenues and the ongoing nature of the service are likely to have a negative impact on the appearance of independence and may even bias the auditor in favor of the client. According to former SEC Chairman Arthur Levitt, the most flagrant conflict of interest in the Enron case was outsourcing the internal audit function, because Andersen was in effect auditing its own work (Aldhizer, Cashell & Martin, 1996). The Enron case shows that there is a conflict of interest that is inherent in the different roles that internal and external audits play. Both audit professions stress independence of the audited activity and object. However, some important differences exist.

External auditors are responsible to the stakeholders of the firm, their first and primary responsibility is to preserve the integrity and reliability of financial reporting. Internal auditors on the other hand are responsible to management and their primary responsibility is to assist management in achieving effectiveness and efficiency. They are considered an important part of the internal control system, and are in essence a management function (James, 2001). Furthermore, consistent with Statement of Auditing Standard (SAS) 55, the external auditor must assess an entity’s internal controls, and consistent with SAS 65, the integrity of the IAF. Thus, if the auditor performs the dual role of internal and external auditor, the auditor must evaluate his or her own work and this is where a conflict of interest will tend to rise. There is therefore a striking difference of opinion between regulators and many practitioners about the appropriateness of external auditors providing internal audit services in various forms (Chewning, 2001). In this paper we shall test hypotheses relating to auditors independence with respect to the provision of internal audit services.

PRIOR RESEARCH FINDINGS AND DEVELOPMENT OF HYPOTHESES

Full outsourcing to current audit firm hypotheses

Simunic (1980) developed a model of the demand for audit and non-audit services based on the concept of economic bonding and found that audit fees charged to large Management Advisory Services (MAS) clients were larger than that charged to small MAS clients and it follows that the increased fees associated with both the internal and external audits increase the economic bond between auditor and client. Also, anecdotal evidence reveals that due to keen competition for audit and non-audit services, audit firms are more likely to offer
discount in audit fees for initial engagements when they will also provide non-audit service in which case the fees will be much more. Simunic & Stein (1996), using proprietary data of one Big 5 firm, report that audit firm increase its audit effort in response to higher litigation risk (which is associated with internal audit) and therefore charges higher audit fees. It is believed that this economic bonding may cause the auditor to disagree with the client on accounting and auditing matters.

**H1:** There is no significant difference in the perception of auditor independence when current audit firm provides full internal audit services.

**Partial outsourcing to current audit firm hypothesis**

According to Bar & Chang (1993), this is the simplest form of external assistance and could also be referred to as supplementation. The U.S SEC believes that partial outsourcing creates less of an economic bond than full outsourcing. Recent rules enacted by the SEC in 2000 limit the outsourcing of internal auditing to a maximum of 40% of the total hours devoted to the internal audit function at the client company (SEC, 2000). But, will this partial outsourcing increase in any way the perception of independence in the internal audit function?

**H2:** There is no significant difference in the perception of auditor independence when there is partial outsourcing to current audit firm.

**Full outsourcing to another audit firm hypothesis**

Considering the Economic bonding theory, problems envisaged with it will not arise since different audit firms will perform the internal and external audit functions. Independence in this case may not be compromised. Auditors will be seen to be independent.

**H3:** There is no significant difference in the perception of auditor independence when another audit firm provides full internal audit service.

**Full outsourcing to current audit firm but with separation of staff for internal and external audit function hypothesis.**

According to Eugene (2001), the argument regarding staff separation is that the greater the separation (mental, physical and financial) between two individuals performing two different tasks, the greater is the likelihood that one will not influence the judgment of the other. With separate divisions performing the two types of audit service and no sharing of staff, we expect that perceptions of independence would be greater than a situation with no separation. But, note that staff separation does not in any way reduce the economic bond between the auditor and the client, thus, if separation of staff is a way of reducing lack of independence in outsourcing, then economic bonding fails to explain independences issues arising in outsourcing of IAF. The studies carried out by Lowe, Geigner & Pany (1999) and Eugene (2001) reveal that staff separation has effect on auditor independence.

**H4:** There is no significant difference in the perception of auditor independence when there is staff separation between the same audit firm rendering both internal and external audit function.

**METHODOLOGY**

This study is an empirical study that tries to measure the perception of Auditors Independence when carrying out internal audit outsourcing. Financial analysts, external auditors, accounting students and organization accountants in Lagos state were selected as the target population. It is assumed that they have sufficient knowledge of Internal audit outsourcing and its possible effect on auditors independence. They were provided with a 5 point Likert scale questionnaire containing 14 questions on auditor’s independence. These 14 questions were repeated 4 times so as to capture respondents’ perception in the four different outsourcing scenarios. The total numbers of questions were then 56. A total of 100 questionnaires were sent out, but only 63 had sufficient and usable response. This implies a response rate of 63%. Out of this ’63, 15 were financial analysts, 19 were accounting student who are preparing for professional accounting examination, 23 were accountant while 6 were external auditors. Financial analyst were drawn from financial advisory section of a consultancy firm accounting student were drawn from an accounting firm, accountants were selected from the bursary department of the National Open University of Nigeria and the external auditor were selected from the audit department of an audit firm. The selection of these groups (Accounting firm, audit firm, consultancy firm and the National Open University of Nigeria) were conveniently done, while the sampling of respondents from each of this group was randomly done.

The one way Analysis of Variance (ANOVA) technique was used to test the various hypothesis and the results were evaluated at a 0.05 significance level. Also, percentage analysis (Descriptive statistics) were used to determine respondents' perception of IAF and auditors independence.
RESULTS

Test of Hypothesis

Hypothesis 1 tests whether there is no significant difference in the perception of auditor independence when current audit firm provides full internal audit service.

ANOVA TABLE

<table>
<thead>
<tr>
<th></th>
<th>Sum of squares</th>
<th>DF</th>
<th>Mean square</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>5.448</td>
<td>5</td>
<td>1.090</td>
<td>10.014</td>
<td>.000</td>
</tr>
<tr>
<td>Within Groups</td>
<td>6.202</td>
<td>57</td>
<td>.109</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>11.650</td>
<td>62</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From our ANOVA table

F_{Cal}(5,57) 10.014 > F_{Tab (0.05)} 2.37

Decision: We reject the Null hypothesis. This implies that there is significant difference in the perception of auditor independence when current audit firm provides full internal audit services. That is, the perception of auditors independence will be low when the current audit firm provides full internal audit service.

Hypothesis 2 tests whether there is no significant difference in the perception of auditor independence when there is partial outsourcing to current audit firm.

ANOVA TABLE

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>DF</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>13.620</td>
<td>5</td>
<td>2.724</td>
<td>16,864</td>
<td>.000</td>
</tr>
<tr>
<td>Within Groups</td>
<td>9.207</td>
<td>57</td>
<td>.162</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>22.827</td>
<td>62</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

F_{Cal}(4,58) 3.143 > F_{Tab (0.05)} 2.37

Decision: We reject the Null hypothesis. There is significant difference in the perception of auditor independence when another audit firm provides full internal audit service. Respondents do not perceive the auditors performing the internal audit function to be independent even when they are from another audit firm.

Hypothesis 4: Tests whether there is no significant difference in the perception of auditor independence when there is staff separation between the same audit firm rendering both internal and external audit function. Our result reveals that

ANOVA TABLE

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>DF</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>3.482</td>
<td>4</td>
<td>.871</td>
<td>3.903</td>
<td>.007</td>
</tr>
<tr>
<td>Within Groups</td>
<td>12.937</td>
<td>58</td>
<td>.223</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>16.419</td>
<td>62</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

F_{Cal}(4,58) 3.903 > F_{Tab (0.05)} 2.37

Decision: We reject the Null hypothesis. There is significant difference in the perception of auditor independence when there is staff separation between the same audit firm rendering both internal and external audit function. This suggests that respondents do not perceive auditors who carry out IAF from a separate department within the same audit firm to be independent.

Additional Hypothesis Testing

Results have revealed to us that for each of the various internal audit function respondents do not perceive auditors to be independent when performing these functions. We will go further to test for significant difference between the various groups. We state our hypothesis in the null form.

H: There are no significant difference in the perception of auditor’s independence between various types of Internal Audit Services.

F_{Cal} 8.481 > F_{Tab 2.37}

We reject the Null hypothesis. This implies that there are significant differences in the perception of auditor’s independence when the IAF is performed in several ways. The extent to which respondents perceive auditors independence vary from full outsourcing to partial to another audit firm to separate department within the same audit firm.

Further Analysis

Descriptive statistics was further used in analyzing the data and the following results were obtained. 66.60% of respondents agree that IAF will affect auditors’ independence negatively when there is full outsourcing. 64.35% of respondents agree that auditor’s independence will be impaired when there is partial outsourcing. 73.93% of
respondents agree that auditors’ independence will be affected when another audit firm provides full internal audit service. 72.04% of respondents believe that auditor’s independence will be affected when they perform IAF with a separate department handling the service.

DISCUSSION OF FINDINGS

Results reveal that financial analysts, accountants, students and external auditors perceive internal audit outsourcing as a risk to audit independence. Results from ANOVA table 1 & 2 reveal that the perception of audit independence is very significant compared with results from ANOVA table 3 & 4. This implies that respondents perceive full and partial outsourcing to be the most risky compared with another firm handling the IAF or a separate department handling the IAF. This is an important indicator that IAF can be tolerated when another firm handles the IAF or a separate department within the same audit firm handles the IAF. But, on a general note Internal audit outsourcing will affect auditor’s independence especially in appearance.

Having a separate department within the same audit firm may not increase the perception of independence significantly because the separation of roles will be difficult and the auditor will be vulnerable to a conflict of interest with regards to financial issues, areas of focus that the internal and external audit profession have in common and what will happen when the investors' interest and the company’s management do not coincide? (James, 2001). Also, as earlier stated, in contrast to traditional consulting services, it is estimated that an accounting firm’s revenues from providing internal audit services could be up to 10 times higher than their accounting and auditing services revenues. In addition, the Internal audit services would likely be provided on an ongoing basis year after year. Because of the magnitude of these revenues and the on-going relationship, the external auditors may unconsciously become biased in the client’s favour. Also, even if the auditor is able to maintain complete objectivity, the general public appearance of independence may be harmed (Aldhizer & Cashell, 1996).

Auditors have always insisted that the responsibility of preventing fraud lies with the internal auditors (management). It seems that respondents believe that this responsibility will now be shifted to auditors thereby exposing them to litigation risks. Another reason for respondents not supporting the internal audit function outsourcing could be that there may be insufficient information available about the potential benefits of internal audit outsourcing especially for external auditor’s i.e the knowledge obtained while performing internal audit activities can increase the efficiency of the annual independent financial statement audits. Also, the Nigerian economy, both the private and public sector is fraught with unethical practices including mismanagement and misappropriation of funds and the public is aware of the accountant’s role in all of this. The common man especially investors see the external auditor and other regulatory bodies as their last resort. Any signal that the external auditor is to become ‘a part of management’ will not go down well with them. And when stakeholders who are mostly investors suspect that IAF outsourcing is about to be introduced, it could affect the capital market as investors will now seek for more returns on their ‘risky’ investments.

CONCLUSION

Big accounting firms in Nigeria, especially those with international affiliation are already providing internal audit services to international clients. There is therefore a high probability that these services will soon be introduced in Nigeria especially as more local audit firms are springing up and competition is on the increase. Audit firms will therefore be willing to avail themselves the opportunity of providing more non-audit services to make more income. This is inevitable. We should therefore make preparations to accommodate this inevitable development.

RECOMMENDATIONS
We agree with the recommendation of Aldhizer & Cashell (1996) wherein they recommend that whenever auditors are to accept internal audit functions:

- The external auditor should not act or appear to act as a member of management or as an employee of the client. That is, he should not be involved in the day to day activities of the organization.
- The client should be responsible for determining the scope, risk, and frequency of internal audit activities, including those to be performed by the auditor. This will be immunity in cases of fraud detection. If the detection of any type of fraud does not fall within the stated jurisdiction of the external auditor performing the IAF, then he is not liable.
- External auditors who are interested in IAF should ensure that when performing audit procedures that they follow guidelines established by the client. This makes the relationship more formal and professional. The external auditor does not need to go out of his way to impress the client.
- External auditors should ensure that the client’s board of directors and/or audit committees is informed of the roles and responsibilities of both management and external auditor.
REFERENCES


The IISTE is a pioneer in the Open-Access hosting service and academic event management. The aim of the firm is Accelerating Global Knowledge Sharing.

More information about the firm can be found on the homepage: [http://www.iiste.org](http://www.iiste.org)

**CALL FOR JOURNAL PAPERS**

There are more than 30 peer-reviewed academic journals hosted under the hosting platform.

**Prospective authors of journals can find the submission instruction on the following page:** [http://www.iiste.org/journals/](http://www.iiste.org/journals/)  All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Paper version of the journals is also available upon request of readers and authors.

**MORE RESOURCES**


**IISTE Knowledge Sharing Partners**

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digital Library, NewJour, Google Scholar