THE IMPACT OF AUDIT REPORT ON INVESTMENT IN FINANCIAL INSTITUTION

(A CASE STUDY OF FIRST BANK PLC IN NIGERIA)

BY

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BEING A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ACCOUNTANCY, INSTITUTE OF FINANCE AND MANAGEMENT STUDIES (IFMS), KWARA STATE POLYTECHNIC, ILORIN.

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CERTIFICATION

This is to certify that this research work was carried out and completed by **ABDULQQADIR SALIMAT OLUWATOYIN** with matric no HND/23/ACC/FT/0222 and has been carefully assessed and approved as meeting part of the requirements for the award of HND in Accountancy, Institute if Finance and Management Studies, Kwara State Polytechnic, Ilorin.

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DEDICATION

I dedicate this research work to almighty Allah, the source of all wisdom and guidance, I appreciate Him for His grace upon my life and the immeasurable blessings throughout my existence.

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All praises and adoration to almighty God, the most beneficent, the most merciful and the Lord of the universe for granting me the strength, wisdom and health to carry out this research work and my course of study (ALHAMDULILLAHI).

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ABSTRACT

This project derived concern for the need to understand the impact of audit report on investment in a financial institution. In modern world, some financial institution finds it very difficult to expand and increases in growth. It is due to the report submitted by the audit that viewed the financial statement of the company to the shareholders or investors. If the financial statement viewed a profitability company, it will attract and motivate the potential shareholders and investor to take a decision of investment in the company. Audit report creates a confidence in the mind of the shareholder. Audit report is important I making decision. This research provides solutions to these problems affecting any financial institution. Also, this work provides information collected through document and questionnaire that revealed the impact of audit report on financial institution. The data collection was done on tale and simple percentage was employed in the data analysis. The research revealed the benefit of audit report to any financial institution to take a viable decision on investment. It was recommended that potential benefit of auditing should be realized by strengthening auditor's independency.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Most business established nowadays, are not managed by the owners (shareholders), but by the others appointed by the owners. This practice is known as "stewardship". Also, the owners who appoint the Directors to look after their property will be concerned to know what has happened to their property. Therefore, the Directors have the report and account for the responsibilities entrusted to them, by the shareholders. This process of reporting and accounting is done by means of financial statement (Al Thuneibat,2009).

The financial statements are produced annually, and take the form of an "Annual Reports and Account" which includes; profit and loss account, and Balance sheet, and also other statements (which are Director's report and Auditor reports). The problem which has risen on Director Report to shareholders, means can the shareholders believe the report? The report may have errors, fraud and false information's.

The solution to the above problem that the owners may have with the Director, lies in appointing on independent person called an "Auditor" to investigate the reports and report his finding to members of the firm. So, at the end of Audit process, he will present a statement to the members of the company stating his opinion whether it show a true and fair view or not. This statement represented by the Auditor is the "Audit report".

The audit report is the end product of the Audit and it is very essential because it explains what the auditor did and views his opinion. Furthermore, it is the belief of all the accountants that the process of accountability is not complete without an audit, and for an audit to be meaningful, the one perfuming it must be independent.Base on this, the shareholders will have to rely on the audit report in making their investment decision for them to do this correctly; they have to analyze the financial statement of the firm in which they wish to invest. And since some of these investors do not have the knowledge of accounting and how to analyze financial statement, they need expect to do these for them (Mark &Jieying, 2014). Therefore, they will rely on the report produced by the auditor in making their investment.

1.2 STATEMENT OF THE PROBLEM

An Audit report adds credibility and increase confidence financial statement of an organization. The primary aim of the audit is for the auditor to state that they do not.In most cases, today, the intended effect to the auditor's report is not clean and the effect it does produced are not well-know. Also audit reports are widely ignored and often misunderstand by alt of people (Porter1990). Apart from these problems, there are misconception views about auditors. Some see auditors as toothless watch-days and fraudsters and therefore do not believe in the report produced by them.Also there is ignorance of the importance of carrying out an audit process on financial statement which might contain errors and fail to disclose fraud (Karkacıer, &FatihCoskunErtas, 2017).Thus, it is as a report of these problems that the researcher took up this research topic in order to emphasis on the need and importance of carrying out audit process as to educate the enlighten share holders and potential investors.

1.3 RESEARCH QUESTION

It is essential to state the problems associated with this research as it is of good great importance in understanding the target work itself. Although, the existence of auditor for various financial institutions the main aim of giving confidence to the owners of these institution and potential investors. But the questions that arise are to what extent are the issuing of audit report to their investors and the confidence the investors have upon the audit report rendered e the auditor. Hence the questions relating to the research work are:

1. What are the impacts of audit report on financial institution?
2. What are the purposes of audit report on financial institution?
3. What are the benefits of audit reports to shareholders of First Bank Plc?

1.4 OBJECTIVE OF THE STUDY

The main objective of this research is to examine the extent to which audit report have impact on the investors in the financial institution with reference to First Bank PLC.

The study attempts to examine, among other things, the aim and objectives of an audit process and also the need and importance of considering the audit reports of a particular firm before making investment decision. By so doing, it is hope that this study will be of great benefit to shareholders and potential investors especially those who want to invest in First Bank Plc.

1.5 RESEARCH HYPOTHESIS

Hypothesis One:

Hi: There is significant relationship between audit reports and investment.

Ho: There is no significant relationship between audit report and investment decision.

Hypothesis Two:

Hi: The addition of a standard audit report to set of financial statement will significantly have impact on investor’s behavior.

Ho: The addition of a standard audit report to a set of financial statement will not significantly have impact on the investor's behavior.

1.6 SIGNIFICANT OF THE STUDY

Significance of this study is that it will be of immense benefit to shareholders and potential investors who are involved in making investment decision. There are frequent collapses of investment decision in Nigeria. One of the factors that contributed to this failure is lack of good audit report. Therefore, this study will be useful to shareholders and potential investor who has interest to invest, so that they will find audit report as an important tool for their investment.Also, this study will also serve as guild for researcher who may like to know more on report writing. It is hope that the conclusion and recommendations drawn from this study will serve as an important reference for individual, firm and general who wish to invest.

1.7 SCOPE OF THE STUDY

This project is concerned with the basis requirement for issuing audit reports and impact of audit reports on investment in a financial institution, First Bank Nigeria Plc as particular references. The scope of this study will include the content of audit report, the preparation of audit report and its importance to the shareholders and the institution. The study also cover the type and impact of audit reports on financial institutions.

1.8 LIMITATION OF THE STUDY

This research project like any other projects was subjects to some limitations. One of the limitations is unwillingness to provide vital information needed for the project by the staff of the company being studied. There is also the limitation of time constraint. This project is directed at a particular target, which is to meet my graduation requirements. This project has to e accomplished within the particular target date otherwise it will lose its potency.

1.9 DEFINITION OF TERMS

Audit: An audit is the independent examination of an expression of opinion on the financial statement of an enterprise by an appointed auditor in pursuance of that appointment and incompliance with the relevant laws and regulations.

Auditor: An auditor is an independent person usually a chartered or certificate accountant who is appointed by an enterprise to carry out an audit process and expressed his opinion on financial statement of that enterprise.

Audit Report: An audit report is a statement issued by the auditor to the members of an enterprise expressing his opinion on the financial statement of that enterprise.

Financial Statement: These are statements which are viewed as framework for capturing and organizing financial information and usually include the profit and loss account, balance sheet and cash flow statements.

Auditee: This is the firm or organization whose financial statements are being audited.

Stewardship Accounting: This is the process whereby the manager of a business account or report to the owners of the business.

Investment Decision: This is the allocation of capital or funds to long-term assets, which would yield benefit in the future.

Audit Evidence: This is the amount of document and other forms of information needed to support an auditor's professional opinion on a set of financial statement of that enterprise.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

Our focus in this chapter is to critically examine relevant literature that would assist in explaining the research problem and furthermore recognize the efforts of scholars who had previously contributed immensely to similar research. The chapter intends to deepen the understanding of the study and close the perceived gaps.

2.2 CONCEPTUAL FRAMEWORK

The Banking Industry

The banking industry in Nigeria comprises of the commercial banks, the merchant banks and the development bank. At the apex of the industry is the central bank of Nigeria (CBN).The commercial banks provides services like acceptance of deposits, granting of short and (very recently) medium term loans to customers, safe-keeping of valuables, offering of pieces of advice to investors etc. The merchant bank on the other hand provide medium and long-term loans etc.The development banks services the development activities by making available about medium and long-term finances for this purpose.The central bank functions regulate the activities of these banks (Hitchins Hogg and Mallett (2001).

Easily, we can point at a member of factors that may be contributing to the unhealthiness and instability in the banking sector. Such factors as unstable macro-economic and fiscal policies, unethical and unprofessional practices, as well as inadequate supervisory activities, rank high on the scale.Developments in the Nigerian political economy since the mid 80s have greatly led to changes in the structure and art of banking. The period witnessed the proliferation of banks and other financial institutions. From CBN annual report (1994), there were 66 (sixty-six) commercial banks and 54 fifty-four) Merchant banks in Nigeria. According to the CBN diary 2003, as at June 2002, we had the following licensed financial institution 89 (eighty-nine) commercial and Merchant banks, 6 (six) development finance institutions, 97 (ninety-seven), finance companies and 125 (one hundred and twenty five) Bureau de change companies in Nigeria.

Concept of Financial Statement

The basis of financial planning analysis and decision making is the financial information. Financial information is needed to predict, compare and evaluate a firm's earning ability. It is also required to aid in economic decision making investment and financing decision making. The financial information of an enterprise is contained in the financial statements. Financial statement according to Andresson & Emander (2005) is defined as financial information which is the information relating to financial position of any firm in a capsule form. Financial statement according to was defined as a written report that summarizes the financial status of an organization for a stated period of time. It includes an income statement and balance sheet or statement of the financial position describing the flow of resources, profit and loss and the distribution or retention of profit. Financial statement according to Academic of organization Dictionary is a document which sets out the assets, income, expenses and debts of a company to allow a third person to assess that company's health. Financial statements according to Nigeria accounting standard Board (NABS) are the areas of communicating to interested parties information on the resource obligations and performances of the reporting entity (Humphre., Moizer, & Turley, 1992).

Financial statement can also be defined as the process whereby information relating to the organization as a whole is reported to the outside world. They are reports on management and not to management. It deals with most external financial transactions of the organization. Financial statements are source documents of accounting information. They are referred to as the final accounts and always vetted by an auditor to affirm their credibility.

Concept of Auditor

The term "audit" as defined by Karkacıer, &FatihCoskunErtas, (2017) is *a process (carried out by suitably qualified auditors) whereby the accounts of business entities, including limited companies, charities, trusts and professional firms, are subjected to scrutiny in such detail as will enable the auditors to form an opinion as to their truth and fairness. This opinion is then embodied in an 'audit report', addressed to those parties who commissioned the audit, or to whom the auditors are responsible under statute.*

Similarly, Salehi&Abedini, (2008) described audit as "the independent examination of, and expression of opinion on, the financial statements of an enterprise by an appointed auditor in pursuance of that appointment and in compliance with any relevant statutory obligation". The opinion formed by an auditor in relation to the truth and fairness of the financial statement is embodied in what is called audit report. This report by the auditor is addressed to the company's stakeholders who have devoted their material, financial and other resources to the care of the managers. Even though there are many types of audit, this study is concerned with financial audit. Financial audit is an ex post verification process having to do with a policing role which requires the independence of the auditor (Power, 1996:4).

A person who is a professionally qualified accountant who has been given a license to carry out public practice is an auditor. An auditor is an independent person appointed by the owners of a company to examine the financial statements prepared by management (Huepkes2005). Even though the primary duty of an auditor is to express a professional opinion on the financial statements, other services that an auditor can provide are accountancy, taxation, liquidation and receivership, investigation, management advisory services, financial advice and secretarial services. However, the fees for these other services do not form part of the audit fee.

The auditor is supposed to have integrity, be independent and objective, conform to confidentiality principles, maintain technical competence and conform to technical standard (Robert2007). Auditing is regulated by statutes (Company and Allied Matters Act, 1990 as amended), professional regulations in form of accounting standards and auditing standards issued by Institute of Chartered Accountants of Nigeria (ICAN) and in some cases adapted from those of some more developed countries. The Institute of Chartered Accountants in England and Wales (2005:8) noted that the mid nineteenth century company audits were carried out by persons (principals or otherwise) whose independence from the managers of the company was no issue. However, due toinformation asymmetries and general lack of trust as depicted by the agency theory, principals began to appoint expert auditors and rely upon their work.

Information asymmetry as described by Scott (2003:7-8) is a situation whereby some parties to a business transaction may have an information advantage over others. In addition, there are two types of information asymmetry which are adverse selection and moral hazard. Adverse selection occurs when management and other insiders know more about the current condition and future prospects of the firm than outside investors. Secondly, moral hazard occurs because of the separation of ownership from management in large companies. In this study, our concern is adverse selection whereby investors have a dearth of information than company insiders. Auditing is therefore a tool to control adverse selection by reporting on the inside information to outsiders.

Objectives Of Auditing in an Organization

The primary objective of an auditor under CAMA 1990, is for an appointed auditor to express a professional opinion on the financial statement of an enterprise prepared by the management so that any person reading and using them may have faith in them. The appointed auditor is to express an opinion:

i. Whether or not the financial statements show a true and fair view of the enterprise's financial positions; and
ii. Whether the accounts have been properly prepared in accordance with the company and allied matter act (CAMA) 1990 and other statutory regulations.

Other secondary objectives include:

a. To prevent errors and fraud by the deterrent and moral effect of the audit;
b. To detect any form of irregularities;
c. To evaluate the effectiveness or otherwise, of the internal control system within the enterprise;
d. To provide spin-off effects. The auditor will be able to assist his clients with accounting systems, taxation, receivership, and other problems.
e. To advice on financial matters for efficient decision making by the management.
f. To ascertain and ensure that an enterprise conform to statutory and professional requirements.

Status ofAuditor

According toMcMullen (1996) there are two types of audit:

i. **External Audit:** This is independent examination of the financial statements of an organization by an auditor who is appointed by the shareholders. The report goes to the shareholders.

Internal Audit: This is the review of the transactions of a business which may be in many respects, similar to the statutory audit, but which is carried out by employees of the business who are responsible to the management.

Responsibilities of Auditors

If echoes from the Failed Banks Tribunal set up by the Federal Government are anything to go by, those agitating for the crucifixion of auditors consequent upon the failed banks saga should have a re-think over their stand (Marshall, McManus, & Viele,2008).). This is because the inadequacy of auditors was not confirmed at the Failed Banks Tribunals (Asein, 1999:12). Like any other profession, there are rules and regulations guiding auditors. The Company and Allied Matters Act (1990) as amended specifies in Section 360(1) that:

It shall be the duty of the company's auditor's, in preparing their report to carry out such investigations as may enable them to form an opinion as to the following matters whether- (a) proper accounting records have been kept by the company and proper returns adequate for their audit have been received from branches not visited by them; (b) *the company's balance sheet and (if not consolidated) its profit and loss account are in agreement with the accounting records and returns.*

This reveals that the primary duty of the auditor is not to detect fraud and other irregularities but this is what existing shareholders and potential investors expect from them (Salehi, 2011). This conflict between the statutory role and the expectation of the present and potential users of financial statement is what has led to the audit expectation gap. Asein (1999:12) affirmed that the lack of understanding of the statutory roles of the auditor in corporate governance (often referred to as the expectation gap) is the reason why persons call for the arrest and prosecution of auditors. In addition, Njoroge, (1993)sounded that the public's perception of the present role of auditors remains at the 'traditional conformance' stage because of the public's refusal to recognize the shift in the auditing paradigm.

In 1896, Lord Lopes stated that the auditor is not a bloodhound but a watchdog. This judgment was given as a result of an event where an auditor relied upon managers' certificates without the auditor conducting a physical observation of the inventory or taking steps to confirm valuation. Subsequently, Vaughan Williams J found that auditors and directors were liable for dividends paid from non-existent profits. Any damages sought against them in respect of subsequent insolvency on the basis of tort were denied. This judgment raised concern by the audit profession and the validity of managers' certificates was also questioned. In the Appeal Court, Lopes LJ stated that 'an auditor is not bound to be a detective or as was said to approach his work with suspicion or with a foregone conclusion that there is something wrong. He is justified in believing tried servants of the company in whom confidence is placed by the company. This has been the source of the fraud detection and prevention debate in auditing Kahneman, Riepe, (1998).

However, Lord Lopes asserted that it is the duty of an auditor to bring to bear on the work has to perform that skill, care and caution which a reasonable competent, careful and cautious auditor would use. The definition of reasonable care however rests on the particular circumstances of each case Humphrey Moizer,& Turley, (2017) Fraud detection moved from being a primary to a secondary objective for audit during this period. Abroad, fraud detection became an issue subsequent to the criticisms as a result of the collapse of Johnson Matthey Bankers in 1984, triggering the establishment of a working party of the Instituteof Chartered Accountants in England and Wales to consider matters relating to auditors' responsibilities in relation to fraud. In addition, the government wanted to impose a duty to report fraud to the Bank of England upon auditors without the knowledge of the client organization. The ICAEW argued that this was an imposition of statutory duty and suggested that instead, companies should be required to maintain an adequate system of internal control (Crowther, &Jatana, (2005).

In recent times, regulators have come to accept the need for professional audit since auditors provide investors with an assurance that the information in the financial statements is not materially inaccurate, and follows established accounting conventions (Ogidan, 1999:30). The aim of which is to ensure that the financial statements show a true and fair view of the state of affairs of a company. Though some persons have argued that audit is not crucial in the present day corporate market, Ng (1978) pointed that if managers are penalized when they use non-GAAP reporting methods, with effective audit technology the probability that a manager would select non-GAAP reporting methods would decrease as compared to a situation in which no audit were to take place (Ogidan, 1999:31). More so Archibong (1996:16) argued that auditors have prevented countless disasters but these were done in secret.

Interestingly, it has been argued by law and the accounting profession that management cannot be prevented from acting in their self-interest. But to ensure the credibility of financial reports there is need for external verification (Adams and Evans, 2004:98). In other words, external verification is a rationale for regulating accounting information. Self-interest is a characteristic of information asymmetry where insiders of a company may have more information than outsiders. By way of protecting the stakeholders in companies from unscrupulous activities of insiders and third parties, statutory audit is a mechanism through which the financial records are matched with the prevailing financial position of a company. In the words of Bricker and Chandar (1998:486) accounting is concerned with information flows and their organization, which are central to business operations, managerial decision-making, and the nature and efficiency of capital markets. In this light, the very nature of accounting deals with ensuring the integrity of information produced in companies because the auditor is an independent agent.

The combinations and merger movement of the late nineteenth century resulted in the formation of several publicly held corporations (Bricker and Chandar, 1998:492). However, Hawkins (1963) noted that before that time financial information was inadequate, investors bought their securities primarily on the basis of confidence and trust in the investment firms marketing the securities. This period was the childhood of the accounting profession and auditing practices were still considered unusual. The function of public accountants and their reports was grossly misunderstood (Bricker and Chandar, 1998).

Presently, times have changed for the auditing profession as there is increased demand for auditors to detect and prevent fraud and errors in companies due to the corporate failures that have taken place especially in the financial sector worldwide. Some of these failures have been traced to fraud perpetrated by employees and management that were not escalated by the external auditor. Harold, A. (2019) argued that fraud has many definitions. It could be in form of a crime, tort,corporate or management fraud. However, fraud can simply be described as dishonesty and willful misrepresentation of a material fact.

It was to reduce the misunderstanding of users that the Auditing Practices Board (APB) recommended that the audit report should contain some text outlining the auditors’ duties in respect of fraud and error. Irregularities in form of material misstatements in financial reports are of particular interest to auditors because of their legal duty to report them.

Misstatement in form of misapplication of accounting principles was identified in the case of Enron (an energy company that failed in 2002) after taking advantage of the United States accounting rules which enable companies to set up Special Purpose Entities (SPEs) to manage assets off balance sheet and in essence spread the business risk.

Jensen &Meckling, (2016) observed that no single event brought about the fall of both Enron and Arthur Andersen (the auditors) but many events happened so close together, one leading to the other, hence resulting in the exit of the two organizations. Even though the rules for creating SPEs were different from the normal principle of consolidation, Enron's auditors Arthur Andersen approved of the transactions. When the company was made to restate its financial statements using the normal accounting principles, they ran into heavy loss. These events and many others that were revealed in the course of time led to the gradual loss of confidence in Enron's stakeholders.

The Role of the BankAuditors

The objective of an audit of a bank's financial statements by an external auditor is to enable an independent auditor to express an opinion as to whether the bank's financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework(Huepkes, 2005). The auditor assesses control risk as being high unless the auditor is able to identify controls that are likely to prevent or detect and correct a material misstatement and conducts tests of the controls that support a lower assessment of control risk.

A detailed audit of all transactions of a bank would be not only time-consuming and expensive but also impracticable. The auditor therefore bases the audit on the assessment of the inherent risk of material misstatement, the assessment of control risk and testing of the internal controls designed to prevent or detect and correct material misstatements, and on substantive procedures performed on a test basis.

The auditor has the sole responsibility for the audit report and for determining the nature, timing and extent of audit procedures, much of the work of internal auditing can be useful to the external auditor in the audit of the financial statements.

Judgment permeates the auditor’s work. The auditor uses professional judgment in areas such as:

a. Assessing inherent and control risk and the risk of material misstatement due to fraud and error;
b. Deciding upon the nature, timing and extent of the audit procedures;
c. Evaluating the results of those procedures; and
d. Assessing the reasonableness of the judgments and estimates made by management in preparing the financial statements.

An auditor plans and conducts the audit to obtain reasonable assurance that misstatements in the bank's financial statements which, individually or in aggregate, are material in relation to the financial information presented by those statements are detected.When the auditor discovers a misstatement material to the financial statements taken as a whole, including the use of an inappropriate accounting policy or asset valuation or a failure to disclose essential information, the auditor asks management to adjust the financial statements to correct the misstatement. If management refuses to make the correction the auditor issues a qualified or an adverse opinion on the financial statements.

As a supplementary but not necessarily integral part of the audit, theauditor ordinarily communicates certain information to management. The auditor also communicates matters of governance to those charged with the governance of the bank (Millichamp, 2002).

Concept of Auditor's report

The concept of auditors' report has for a long time attracted attention from scholars, the business community and financial analysts. Both theoretical and empirical literatures exist showing researchers' interest in this area. Studies focused on the utility of audit report in prediction of corporate failure, their impact on stock prices of new and old issues as well as the impact on lending decisions of financial organizations. The auditors' report is a document containing auditors' opinion of whether a company's financial statements comply with GAAP. The Audit report is a medium of communication between auditor and users of financial statement; it shows the most important part of auditors' activity and expresses the result of financial statements' assessment to users (Salehi&Abedini, 2008). It is important because banks, creditors, and regulators require an audit of a company's financial statements.

According to Harold (2019), auditors' report is a written opinion of an independent certified public accountant that a company's financial statements are a fair representation of the company's financial performance and financial position. The auditors' report is required for each corporation whose stock is publicly-traded. An auditors' report is considered an essential tool when reporting, financial information to users, particularly in business. Some have even stated that financial information without an auditors' report is "essentiallyworthless" for investing purposes. In the opinion of Al-Thuneibat (2009), the audit report is the report that contains the audit opinion which is issued by independent auditors after their examination on the entity's financial statements and related reports.

Njoroge (1993), posits that mostly, those reports are issued based on the result of auditors' professional examination against the measurement criteria or standards. This is promoted by bestowing a duty of accountability on a company's management. For example, auditors perform their audit on how far the client's financial statement complies with relevant accounting standards. In other words, they review whether or not financial statements prepared present true and fair view in accordance with the accounting standards. Those standards could be IFRS, US GAAP or local GAAP. After completing the tests, the auditor then issues the audit report on the financial statements that they just audited indicating their opinion on the financial statements. The audit report is used by many stakeholders, including entity's management, the board of directors, shareholders, investors, government body, banks, and many others. In most cases, the audit report is issued to cover financial statements over 12 months or one year period. According to Okere, et al. (2017) audit reports authenticate information that financial statements provide. Audited financial statements provide a basis for investment and financial decisions.

Types of Audit report

Different types of audit report contain different audit opinions and the main cause is from the different of misstatements found in the financial statements. Different types of audit reports represent a different level of assurance. There are four types of audit reports issued by auditors on financial statements. Each type of report contains different meanings and messages from auditors to users of financial statements. Those audit reports included the Unqualified Audit Report (Clean Audit Report), Qualified Audit Report, Disclaimer Audit Report, and Adverse Audit Report. The following are the detail of audit reports.

Unqualified Audit Report (Clean Audit Report) is the most frequent type of report which is referred to as the "Unqualified Opinion", and is regarded by many as the equivalent of a "clean bill of health" to a patient, and has led many to call it the "Clean Opinion". In reality it is not a clean bill of health, because the Auditor can only provide reasonable assurance regarding the Financial Statements, not the health of the company itself, or the integrity of company records not part of the foundation of the Financial Statements (Marshall, McManus &Viele, 2008). Unqualified Audit Report is issued by auditors on financial statements in which they found no material misstatements. This report contains the unqualified opinion from an independent auditor showing that the entity’s financial statements as prepared, present true and fair view and complied with accounting framework being used.

The qualified Audit report is the report issued by auditors to the financial statements that found material misstatements on them. But those material misstatements are not pervasive. For example, the opening balance of the entity contains a large number of inventories that could not be verified. In this case, the auditor issued a qualified audit opinion on the qualified audit report. The opinion of a Certified Public Accountant that a firm's financial statements deviate in some respect from a clean opinion according to generally accepted accounting principles (David, 2003). In these kinds of reports, only inventories that is mentioned matters, other information in the financial statements is true and fair. In terms of seriousness, the qualified audit report is more serious than unqualified due to material misstatements of the mentioned items or accounts in the financial statements.

The Adverse Audit Report is a type of audit report that is issued on financial statementsisstatements found here are not only material misstated for them, but also affect other accounts and items in the whole financial statements. These are called pervasive. That means all the items and accounts in the whole financial statements could not be trusted by shareholders, investors, and other stakeholders. Generally, an adverse opinion is only given if the financial statements pervasively differ from GAAP (Messier &Emby, 2005). An example of such a situation would be the failure of a company to consolidate a material subsidiary.

The disclaimer audit report is the report that is issued where there is a matter of auditor’s independence and those matter cause auditors not to be able to obtain sufficient audit evidence to support their opinion. The report is issued when the auditor could not form and consequently refuses to present an opinion on the financial statements. This type of report is issued when the auditor tried to audit an entity, but could not complete the work due to various reasons and does not issue an opinion. The disclaimer of opinion report can be traced back to 1949, when the Statement on Auditing Procedure No. 23: Recommendation Made to Clarify Accountant's Representations When Opinion Is Not Expressed was published to guide auditors in presenting a disclaimer (Robert, 2007).

Concept of Investors’ Decision Making

Kahneman and Riepe (1998), the study of the decision making process are not considered relevant only to explain the dynamics of financial markets, but also to help financial advisors to develop their prescriptive activity of advising more effectively. The Investment Decision relates to the decision made by the investors or the top-level management in the amount of funds to be deployed in the investment opportunities. It is a big deal in terms of the fact that the financial statements prepared by the companies show reliable and timely information. Macroeconomic indicators and the financial position of the investors are the determinants of investors' decisions. Investors decide whether to invest in the shares of the enterprises by examining the financial position and results of operations (Coskun, Güner, &Okudan 2013 as cited by Atila&Fatih, 2017). Simply, select the type of assets in which the funds will be invested by the firm is termed as the investment decision. These assets fall into two categories:

- ❖ Long-Term Assets
- ❖ Short-term Assets

The decision of investing funds in the long term assets is known as Capital Budgeting. Thus, Capital Budgeting is the process of selecting the asset or an investment proposal that will yield returns over a long period. The first step involved in Capital Budgeting is to select the asset, whether existing or new based on benefits that will be derived from it in the future. The next step is to analyze the proposal's uncertainty and risk involved in it. Since the benefits are to be accrued in the future, the uncertainty is high to its returns. Finally, the minimum rate of return is to be set against which the performance of the long-term project can be evaluated.

THE IMPACT OF AUDIT REPORT ON INVESTMENT IN FINANCIAL INSTITUTION

After completing the tests, the auditor then issues the audit report on the financial statements that they just audited indicating their opinion on the financial statements. The audit report is used by many stakeholders, including entity's management, the board of directors, shareholders, investors, government body, banks, and many others. In most cases, the audit report is issued to cover financial statements over 12 months or one year period. According to Okere, et al. (2017) audit reports authenticate information that financial statements provide. Audited financial statements provide a basis for investment and financial decisions. The auditors' report is a tested and reliable information source.

Hoti, Ismajli, Ahmeti and Dërmaku (2012), opined that audit reports supplement the accounting information drawn from the financial reports, they provide an avenue for the increment of the integrity of management disclosures. Thus the coalition of audit reports and financial information can be a great determinant of numerous business events. Investors use audit report and audited financial statements to assess the entity's financial performance and financial position for their investment opportunity. Government agency uses the audit reports and financial statements to assess the completeness and accuracy of tax declaration. Shareholders and the board of directors use the audit report to assess the integrity of management and transparency of financial statements. It should be noted that the audit reports should be of quality stating opinion on the true and fair view. Though it is difficult to measure the authenticity, quality, true and fair view of the auditors' report because of the amount of assurance the auditors provide is unobservable. Auditors too are in the business to make a profit and not to make a loss as they acted based on the directive of those that appointed them.

According to the IASB (2010) as cited by Okere, Ogundana, Adetula, Adesanmi&Lawal,(2017), the Financial Reports function is to provide relevant information to investors and also providers of resources as an indispensable element in the decision process of lenders and investors.

2.3 THEORETICAL FRAMEWORK

Credibility Theory

This theory regards the primary function of auditing as adding credibility to financial statements provided by the company. Audited financial statements are used by management as agents, to enhance the principal's faith in the agent's stewardship and reduce the information asymmetry. According to this theory, the users gain benefits from the increased credibility, which has a direct impact on the quality of investment decisions as they are based on reliable information. However, Porter (1990) concludes, that "Audited information does not form the primary basis for investors' investment decisions". On the other hand, it is often asserted that financial statements have a function of confirming or authenticating messages that was previously issued (Hayes, et al., 1999). Based on this assertion, several authors have concluded that investors do not consider audited information as their principal support for investment. Therefore, this theory does not address the other functions theinvestors expect the auditor to embrace regarding his attestation function.

Agency Theory

Agency theory analyses the relationship between two parties: investors and managers. The agent (i.e. Manager) undertakes to perform certain duties for the principal (i.e. Investors) and the principal undertakes to reward the agent (Jensen &Meckling, 1976). According to this theory, the role of the auditor is to supervise the relationship between the manager and the owners. A gap expectation occurs when the distribution of the responsibility is not well defined. The responsibility of every part is well defined in the regulation. The manager and the owners have to realize that the auditor does not have the responsibility for the accounting, but only sees that the auditing is done properly (Andersson&Emander, 2005). Donaldson and Davis, (1991) in their own opinion argued that in a corporation, in which share ownership is widely spread, managerial behavior does not always maximize the returns of the shareholders. The degree of uncertainty about whether the agent will pursue self-interest rather thancomply with the 41 requirements of the contract represents an agent risk for an investor (Fiet, 1995). Given that principals will always be interested in the outcomes generated by their agents, agency theory demonstrates that accounting and auditing have an important task in providing information and this task is often associated with stewardship, in which an agent reports to the principal on the companies' events (Ijiri, 1975). The demand for auditing is sourced in the need to have some means of independent verification to reduce record keeping errors, asset misappropriation, and fraud within business and business organization.

2.4 EMPIRICAL REVIEW

Callen and Khan (2013) in their research surveyed the quality of accounting information and delay information affecting this information on the stock price and its relationship with the future stock returns. They stated that whatever the quality of accounting is reduced, the relevance and reliability of it will be reduced and consequently, prediction accuracy of cash flows and returns will be reduced for investors.

Noor-ul-Haq et al. (2012) examined the relationship between economic power and the state auditor in 46 countries. They showed that whatever the quality of government is politically and economically powerful, then choosing four large auditing institutions is plausible. They also confirmed the affluent countries that have accepted international financial reporting standards, choosing four large auditing institutions is plausible. The results of their research confirmed that whatever the government of a country is stronger the demand is more for higher-quality audit services (Kadilli, 2015).

Leventis and Dimitropoulos (2010) audit services pricing, the interest quality and the board independence were examined for 97 companies, between the years 2000 and 2004. The results of this study show that there is a positive relationship between auditor independence and audit services pricing. Moreover, there is a positive relationship between audit services pricing and interest management that the result is for the companies with small size (Kausar et al., 2015).

Chen et al. (2010) examined the effect of auditor size (as a factor of audit quality) on interest management and capital costs for the two categories of Chinese companies. A group of companies owned by the states and others non-state-owned companies. The results of this study showed that the impact of auditing quality in reducing interest management is stronger in private companies than public companies. In addition, cost of capital, that investor consider for the information risk as a value. Private companies are more influenced by the quality audit than public companies.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

In this chapter, we described the research procedure for this study. A research methodology is a research process adopted or employed to systematically and scientifically present the results of a study to the research audience viz. a vis, the study beneficiaries.

3.2 RESEARCH DESIGN

Research designs are perceived to be an overall strategy adopted by the researcher whereby different components of the study are integrated in a logical manner to effectively address a research problem. In this study, the researcher employed the survey research design. This is due to the nature of the study whereby the opinion and views of people are sampled.According to Singleton & Straits, (2009), Survey research can use quantitative research strategies (e.g., using questionnaires with numerically rated items), qualitative research strategies (e.g., using open-ended questions), or both strategies (i.e., mixed methods). As it is often used to describe and explore human behaviour, surveys are therefore frequently used in social and psychological research.

3.3 POPULATION OF THE STUDY

According to Udoyen (2019), a study population is a group of elements or individuals as the case may be, who share similar characteristics. These similar features can include location, gender, age, sex or specific interest. The emphasis on study population is that it constitute of individuals or elements that are homogeneous in description.

The main objective of this research is to examine the extent to which audit report have impact on the investors in the financial institution with reference to First Bank PLC.Selected Auditors, Management and Shareholders in First Bank PLC in Nigeriaform the population of the study.

3.3 POPULATION OF THE STUDY

According to Udoyen (2019), a study population is a group of elements or individuals as the case may be, who share similar characteristics. These similar features can include location, gender, age, sex or specific interest. The emphasis on study population is that it constitutes of individuals or elements that are homogeneous in description.

The main objective of this research is to examine the extent to which audit report have impact on the investors in the financial institution with reference to First Bank PLC. Selected Auditors, Management and Shareholders in First Bank PLC in Ilorin Metropolis form the population of the study.

3.4 SAMPLE SIZE AND SAMPLING TECHNIQUES

In this study, the researcher adopted the convenient sampling method to determine the sample size. Out of all the entire population of bank depositors in ilorin Metropolis, the researcher conveniently selected 80 participants out of the overall population as the sample size for this study. According to Torty (2021), a sample of convenience is the terminology used to describe a sample in which elements have been selected from the target population on the basis of their accessibility or convenience to the researcher.

3.5 SOURCES AND METHOD OF DATA COLLECTION

Two methods of data collection which are primary source and secondary source were used to collect data. The primary sources were the use of questionnaires, while the secondary sources include textbooks, internet. journals, published and unpublished articles and government publications.

3.6 INSTRUMENT FOR DATA COLLECTION

The research instrument used in this study is the questionnaire. A survey containing series of questions were administered to the enrolled participants. The questionnaire was divided into two sections, the first section inquired about the responses demographic or personal data while the second sections were in line with the study objectives, aimed at providing answers to the research questions. Participants were required to respond by placing a tick at the appropriate column. The questionnaire was personally administered by the researcher.

3.7 TECHNIQUES FOR DATA ANALYSIS

The responses were analyzed using simple percentage in frequencies and tables which provided answers to the research questions. The hypothesis test was conducted using Chi-Square statistical package for social science.

3.8 MODEL SPECIFICATION

In this study, a regression modet will be employed to analyze the impact of audit reports on investment decision in financial institutions, using First bank Nigeria PLC as a case study. The model seeks to establish the relationship between audit report variables and the level of investment made by stakeholders.

The model is specified as follows;

INV = Bo + BAUD + B TRAN + B CRED + p

Where,

INV Investment in the financial institution (measured by capital inflow or investment growth rate)

B. Intercept or constant term

AUD Audit Report Quality (measured by transparency, accuracy, and timeless of audit reports)

TRAN Level of Financial Transparency (measured by disclosure practices and adherence to regulatory standards)

CRED Credibility of the Audit Firm (measured by reputation or international affiliation of the audit firm)

Error term (captures all variables not included in the model)

A priori Expectations

It is expected that;

B> 0: A high-quality audit report is expected to positively influence investment.

B_2> 0: Greater financial transparency should encourage investor confidence.

B_3 > 0 The credibility of the audit firm should positively affect investment decisions.

The model will help determine the extent to which audit-related variables influence investment patterns in First Bank. The regression analysis will be carried out using statistical tools such as SPSS or STATA, based on available data.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

This chapter presents the analysis of data derived through the questionnaire and key informant interview administered on the respondents in the study area. The analysis and interpretation were derived from the findings of the study. The data analysis depicts the simple frequency and percentage of the respondents as well as interpretation of the information gathered. A total of thirty-six (36) questionnaires were administered to respondents of which only thirty (30) were returned and validated. This was due to irregular, incomplete and inappropriate responses to some questionnaire. For this study a total of 30 was validated for the analysis.

4.2 DATA PRESENTATION

Table 4.1: Sex Classification of respondents

Sex	Respondents	Percentages (%)
Gender		
Male	17	56.7%
Female	13	43.3%
TOTAL	30	100

Source: Field Survey 2025

Fromthe table 1 above 56.7% of the respondent are male and the remaining 43.3% are female, thus male from the majority of the respondents.

TABLE 4.2 AGE CLASSIFICATION OF RESPONDENTS

Age group	Respondents	Percentages (%)
20-25	9	30%
25-30	8	26.7%
31-35	6	20%
36+	7	23.3%
TOTAL	30	100

Source: Field survey 2025

From the table 2 above, age group or bracket of 20-25 years from the majority of the respondents it can therefore be conducted that the right people with the required and favourable age group are available to offer valuable information to help the course of research work promptly paid. It can be concluded that there is no enough information.

TABLE 4.3 Marital Classification of Respondents

Marital Status	Respondent	Percentages (%)
Single	19	63.3%
Married	11	36.7%
Separated	0	0%
Widowed	0	0%
TOTAL	30	100

Source: Field survey, 2025

From the table 3 above reveals that 19 respondents representing 63.3% respondents single.

The analysis therefore reveals that majority of the respondents are single.

TABLE 4:4 EDUCATION CLASSIFICATION OF RESPONDENTS

Education Level	Respondents	Percentages (%)
O'LEVEL	0	0%
BS.c	25	83.3%
MS.c	5	16.7%
MBA	0	0%
TOTAL	30	100

Source: Field Survey, 2025

From the table 4 above reveals that 25 respondents representing 83.3% respondents BS.C, the analysis therefore reveals that majority of the respondents are BS.C

4.3 DESCRIPTIVE ANALYSIS

Question 1: What are the impacts of audit report on financial institution?

Table 1: OPTION: IT CONTRIBUTES TO PRUDENT MANAGEMENT OF AVAILABLE RESOURCES

Options	Respondents	Percentages (%)
YES	30	100
NO	-	-
TOTAL	30	100

Source: Field Survey, 2025

From the responses obtained in the table above on the audit report on financial institution, 100% of the respondent said Yes, there was no record for No and undecided.

TABLE 2: IT CREATE GREATER CONFIDENT IN THE FINANCIAL REPORT BY MANAGEMENT SHAREHOLDER IN INVERSTOR'

Options	**Respondents**	**Percentages (%)**
YES	30	100
NO	-	-
TOTAL	30	100

Source: Field Survey 2025

From the responses obtained in the table above on the audit report on financial institution 100% of the respondents said yes there was no record for No.

Question 2: What are the purposes of audit report on financial institution?

TABLE 1: OPTIONS IT HELPS IN DETECTION AND PREVENTION OF ERRORS & FRAUD

Options	**Respondents**	**Percentages (%)**
YES	30	100
NO	-	-
TOTAL	30	100

Source: Field Survey, 2025

From the responses obtained in the table above on purposes of audit report on financial institution, 100% of the respondent said Yes, there was no record for No and undecided.

Table 2: The audit helps in maintaining the records and verification of books of the books of accounts

Options	Respondents	Percentages (%)
YES	30	100
NO	-	-
TOTAL	30	100

Source: Field survey 2025

From the responses obtained in the table above on purposes of audit report on financial institution, 100% of the respondent said yes there was no record for No

Question3: What are the benefits of audit reports to shareholders of First Bank Plc?

Table 1: option it reveals whether the company is honest & reliable towards their Shareholders or not.

Table 4.3:

Options	Respondents	Percentages (%)
YES	30	100
NO	-	-
TOTAL	30	100

Source: Field Survey, 2025

From the responses obtained in the table above on the table above on the audit report on financial institution, 100% of the respondent said Yes, there was no record for No and undecided.

Table 2: An independent review of he financial statements can provide transparency to the shareholders that the company is being run within their best interests.

Options	**Respondents**	**Percentages (%)**
YES	30	100
NO	-	-
TOTAL	30	100

Source: Field survey, 2025

From the table above on the audit report on financial institution 100% of the respondent said yes, there was no record for No.

Table 3: Audit report can highlight any issues that have occurred which may not have been brought to shareholders attention.

Options	**Respondents**	**Percentages (%)**
YES	30	100
NO	-	-
TOTAL	30	100

Source field survey 2025

From the table above on the audit report on financial institution 100% of the respondent said yes there was no record for no.

4.3 TESTING HYPOTHESIS

Hypothesis One:

Ho: There is no significant relationship between audit report and investment decision.

H1: There is significant relationship between audit report and investment decision.

Table 4.4:There is no significant relationship between audit report and investment decision.

Options	Fo	Fe	Fo– Fe	(Fo - Fe)2	(Fo–-Fe)2/Fe
Yes	15	10	5	25	2.5
No	4	10	-6	36	3.6
Undecided	11	10	1	1	0.1
Total	**30**	**30**			**6.2**

Source: Extract from Contingency Table

Degree of freedom = (r-1) (c-1)

(3-1) (2-1)

(2) (1)

= 2

At 0.05 significant level and at a calculated degree of freedom, the critical table value is 5.991.

Findings

The calculated X^2 = 6.2 and is greater than the table value of X^2 at 0.05 significant level which is 5.991.

Decision

Since the X^2 calculated value is greater than the critical table value that is 6.2 is greater than 5.991, the Null hypothesisis rejected and thealternative hypothesis which states that there is significant relationship between audit reports and investment is accepted.

Hypothesis Two

Ho: The addition of a standard audit report to a set of financial statement will not significantly have impact on the investor's behavior.

H1: The addition of a standard quality report to set of financial statement will significantly have impact on the investor's behavior.

Table 4.5: The addition of a standard audit report to a set of financial statement will not significantly have impact on the investor's behavior.

Options	**Fo**	**Fe**	**Fo - Fe**	**(Fo - Fe)2**	**(Fo--Fe)2/Fe**
Yes	17	10	7	49	4.9
No	08	10	2	4	0.4
Undecided	06	10	4	16	1.6
Total	**30**	**30**			**6.9**

Source: Extract from Contingency Table

Degree of freedom = (r-1) (c-1)

(3-1) (2-1)

(2) (1)

= 2

At 0.05 significant level and at a calculated degree of freedom, the critical table value is 5.991.

Findings

The calculated X^2 = 6.9 and is greater than the table value of X^2 at 0.05 significant level which is 5.991.

Decision

Since the X^2 calculated value is greater than the critical table value that is 6.2 is greater than 5.991, the Null hypothesisis rejected and the alternative hypothesis which states that the addition of a standard audit report to set of financial statement will significantly have impact on investor's behavior.

CHAPTER FIVE

SUMMARY, CONCLUSION,RECOMMENDATION

5.1 SUMMARY

The main objective of this research is to examine the extent to which audit report have impact on the investors in the financial institution with reference to First Bank PLC.The study attempts to examine, among other things, the aim and objectives of an audit process and also the need and importance of considering the audit reports of a particular firm before making investment decision.

conveniently enrolled thirty-six(36) participants in the study who are auditors, manager and shareholders in in selected First Bank PLC in First. Well structure questionnaire which provided answer to the research questions was issued to the participant. A total of 30 responses were received and validated for the study. Data was analyzed using simple percentage presented in frequencies and tables. Hypothesis was tested using Chi-Square statistical package for social science(SPSS).

5.2 CONCLUSION

The auditor’s opinion as intermediary information between the company and external users throughout the audit report is a determinant for the shareholders to decide whether to invest or not. Investors, in particular, decide whether to invest in the shares of the enterprises by examining the financial position and results of operations. The financial statements are considered an important source, not only for gauging the performance of the entity, but also for understanding how funds invested in organizations have been used and how they enabled those stakeholders in the entity to make informed decisions. The users of audit reports consider the information provided in the auditor's opinion as useful and important when making decisions, both regarding their decisions of investing in and financing companies as well as the amount of the investment or the loan to grant. The audit report is indeed useful for those interviewed when making decisions, proving to be so by the fact that it affects the investment and financing decisions carried out by investors respectively.The study therefore concludes that

- ❖ There is significant relationship between audit reports and investment is accepted.
- ❖ The addition of a standard audit report to set of financial statement will significantly have impact on investor's behavior.

5.3 RECOMMENDATION

- ❖ Based on the above assertions, the following recommendations are made:

  1. The auditors' report should be comprehensive since the users consider audit report information as useful when making decisions, both relating to decisions of investing in, financing organizations and the volume of investment.

- ❖ For the auditors' report to be useful, the report content should be extended to include areas and subjects, such as illegal act discovery, evaluation of internal controls, and the evaluation of the firm's continuity ability to increase investors' confidence.
- ❖ The auditors' report should be related to provide information on issues affecting continuity and a comprehensive opinion paragraph is needed for the investors.
- ❖ Investors should be enlightened on audit reports to enable them to comprehend the content of audit reports and see its value.

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APPENDIXE

QUESTIONNAIRE

PLEASE TICK [√] YOUR MOST PREFERRED CHOICE (s) ON A QUESTION

SECTION A

PERSONAL INFORMATION

Gender

Male [ ]   Female [ ]

Age

20-25 [ ]

25-30 [ ]

31-35 [ ]

36+ [ ]

Marital Status

Single [ ]

Married [ ]

Separated [ ]

Qualification

WAEC/OND [ ]

HND [ ]

B.Sc/ M.Sc [ ]

SECTION B

Question 1: What are the impacts of audit report on financial institution?

OPTIONS	**Yes**	**No**	**Undecided**
contributes to prudent management of available resources			
Enhances greater accountability and credibility of financial statement			
create greater confidence in the financial report by management, shareholders and investors			

Question 2: What are the purposes of audit report on financial institution?

OPTIONS	**Yes**	**No**	**Undecided**
helps in the detection and prevention of errors and frauds.			
The audit helps in maintaining the records and verification of books of the books of accounts.			
Creditors and investors use audit reports from Supreme Audit Institutions (SAI) to make			

decisions on financial investments			

Table 4.3:

Question3: What are the benefits of audit reports to shareholders of Oceanic Bank Plc?

OPTIONS	**Yes**	**No**	**Undecided**
It reveals whether the company is honest & reliable towards their shareholders or not.			
An independent review of the financial statements can provide transparency to the shareholders that the company is being run within their best interests			
Audit report can highlight any issues that have occurred which may not have been brought to shareholders attention.			
The audit is the linchpin to give shareholders confidence that they can rely on published financial statements to decide whether and in which companies to invest, and at what price			

Question 4: Is there any significant relationship between audit report and investment decision?

Options	**Please Tick**
Yes	
No	
Undecided	

Question 5: Would the addition of a standard audit report to a set of financial statement significantly have impact on the investor's behavior?

Options	**Please Tick**
Yes	
No	
Undecided	